

REPARATION COMMISSION.

XIIA.

OFFICIAL DOCUMENTS.

Report of the Commissioner for the German Railways (September 1, 1925, to May 31, 1926).

Report of the Commissioner of the Reichsbank (September 1, 1925, to May 31, 1926).

Report of the Commissioner of Controlled Revenues (September 1, 1925, to March 31, 1926).

Report of the Trustee for German Industrial Debentures (September 1, 1925, to February 28, 1926).

Report of the Trustee for the German Railway Bonds (June, 1926).



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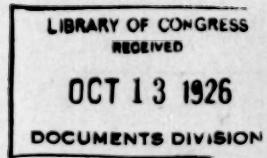
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June 1926

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Report of the Commissioner of the Reichsbank.

(September 1, 1925, to May 31, 1926.)

During the period covered by the present Report no changes were made in the composition of the General Council.

The re-election of the German members mentioned in the 1924-1925 annual Report was confirmed on March 26, 1926, by the shareholders of the Reichsbank who are of German nationality.

During the period covered by the present Report the General Council met once a month and discussed the monthly Reports of the President and of the Commissioner.

The Commissioner was regularly present at the weekly meetings of the Directors of the Reichsbank (Reichsbankdirektorium) with the Deputies of the Central Committee.

The following should be noted in connection with the duties of the Commissioner under § 27 of the Bank Law.

I. Issue of Notes.

The 1924-1925 annual Report mentioned that under § 3 of the Bank Law the Reichsbank is obliged to call in the whole of its (*paper*) mark notes in circulation and to exchange them for Reichsmark notes. Under the terms of the order calling in the paper mark notes, they ceased to be legal tender as from June 5, 1925, and became entirely worthless as from July 5, 1925.

Up to November 30, 1925, the paper mark notes still outstanding were included in the total of Reichsbank notes in circulation. Since that date they have no longer been included, so that the statement of Reichsbank notes in circulation now comprises only the Reichsmark notes indicated in the Bank Law of August 30, 1924.

The Reichsbank, however, provisionally still allows the exchange of paper mark notes for legal tender at its head office in Berlin, where the persons presenting the notes can prove that for some sound reason they were unable to exchange the notes within the time-limits fixed. At the end of the period covered by the present Report there was only a very small amount of these notes still outstanding (less than one half per cent of the total circulation of Reichsbank notes).

The legal appeals mentioned in the 1924-1925 annual Report, which were instituted for the revalorisation of the old paper mark notes, were finally rejected on May 20, 1926, by the supreme court of the Reich, the Reichsgericht in Leipzig. Foreign courts, which have had occasion to pronounce in the matter, have also given judgment in the same sense.

With regard to the *Reichsmark notes*, which under § 27 of the Bank Law have to be prepared and issued with the participation of the Commissioner, it was already stated in the 1924-1925 annual Report that the printing of the first issue was completed on September 8, 1925. In order to increase its reserve stock, the Reichs-

bank decided to prepare a further issue, the printing of which was begun in the middle of February, 1926. The preparation of this further issue was completed on March 30, 1926.

At the beginning of the period covered by the present Report (August 31, 1925) the total circulation of Reichsbank notes was 2,594,562,000 reichsmarks and on May 31, 1926, it was 2,877,952,000 reichsmarks. The highest amount (3,159,643,450 reichsmarks) was reached on March 31, 1926.

Besides the bank notes issued by the Reichsbank, the Rentenbank notes issued by the German Rentenbank, as well as the notes of the four private Banks of Issue and coins, are also in circulation.

On August 31, 1925, the circulation of *Rentenbank notes* amounted to 1,712,579,000 reichsmarks, while on May 31, 1926, it was 1,373,146,000 reichsmarks.

The payments into the Sinking Fund, provided for in the Law for the Liquidation of the Rentenbank notes in Circulation, have taken place regularly. On May 31, 1926, 551.0 million reichsmarks had been paid in to the Sinking Fund, against 246.0 million reichsmarks on August 31, 1925, allocated as follows (in millions of reichsmarks):

	On August 31	On May 31, 1926
under § 7a of the Law	45.4	99.8
" § 7b " " "	45.0	90.0
" § 7c " " "	55.6	67.8
" § 11 " " "	100.0	293.4
	246.0	551.0

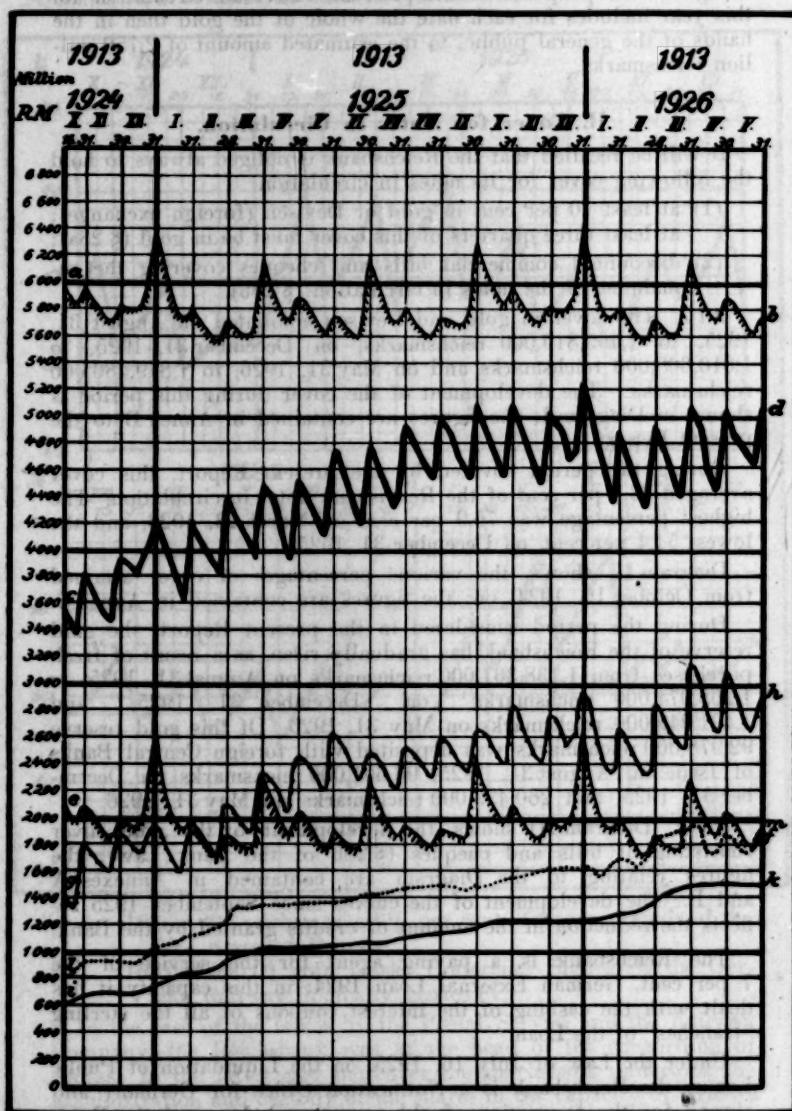
The note circulation of the *private Banks of Issue* (these are the Bayerische Notenbank, the Württembergische Notenbank, the Sächsische Bank and the Badische Bank), the maximum figure for which has been fixed at a total sum of 194 million reichsmarks, was 186.5 million reichsmarks on August 31, 1925, and 175.2 million reichsmarks on May 31, 1926.

The coinage of *gold coins* of 10 and 20 reichsmarks for which provision is made in § 2 of the Coinage Law (*Münzgesetz*) of August 30, 1924, has not yet taken place during the period covered by the present Report. The amounts in circulation of the gold coins, which were coined under former Laws and are legal tender under § 4 of the Coinage Law, are insignificant.

On August, 31, 1925, the circulation of *silver coins* (for 1, 2, 3 and 5 reichsmarks) and of *pfennig pieces* (1, 2, 5, 10 and 50 pfennigs) amounted to 510.4 million reichsmarks. The total amount of such coins must not exceed 20 reichsmarks per head of the population of the Reich. On May 31, 1926, there were 638.7 million reichsmarks of these coins in circulation.

The accompanying Diagram I shows the development of the circulation of Reichsbank notes and of other instruments of payment from October 15, 1924, (first statement of the Reichsbank under the new Bank Law) until May 31, 1926. The figures on which the Diagram is based are contained in Annex A to the present Report.

Diagram I.



a — b. Total circulation of means of payment 1913

c — d. Total circulation of means of payment 1924/26

e — f. Reichsbank notes 1913

g — h. Reichsbank notes 1924/26

i — k. Gold holdings 1924/26

l — m. Gold holdings + Devisen available for cover 1924/26

As in the 1924-1925 annual Report, the figures for the year 1913 are given for purposes of comparison. The total circulation for this year includes for each date the whole of the gold then in the hands of the general public, to the estimated amount of 2,750 million reichsmarks.

II. Cover for Notes in Circulation.

It will be recalled that the Reichsbank is obliged always to hold the following cover for its notes in circulation:

- (1) at least 40 per cent in gold or Devisen (foreign exchange); at least three quarters of this cover must be in gold (§ 28a);
- (2) discounted commercial bills and cheques covering the remainder of the notes in circulation (§ 28b).

Ad 1. The cover in gold and Devisen amounted on August 31, 1925, to 1,495,819,000 reichsmarks, on December 31, 1925, to 1,610,608,000 reichsmarks and on May 31, 1926, to 1,879,480,000 reichsmarks. The development of the cover during this period is shown in Diagram I; the figures are contained in Annex B to the present Report.

During the period covered by the present Report, this cover averaged 63.5 per cent of the Reichsbank notes in circulation. The highest percentage was 76.9 per cent on March 23, 1926, and the lowest 54.4 per cent on December 31, 1925.

Diagram II shows the various percentages of cover attained from October 15, 1924, on; the figures are contained in Annex C.

During the period considered in the present Report, the gold reserve of the Reichsbank has gradually risen, as a result of fresh purchases from 1,138,361,000 reichsmarks on August 31, 1925, to 1,208,074,000 reichsmarks on December 31, 1925, and 1,491,949,000 reichsmarks on May 31, 1926. Of this gold reserve 92,978,000 reichsmarks was deposited with foreign Central Banks of Issue on August 31, 1925, 96,601,000 reichsmarks on December 31, 1925, and 260,435,000 reichsmarks on May 31, 1926.

Ad 2. Diagram III shows the development of the note cover consisting of bills and cheques (§ 28b of the Bank Law); the figures relating to the Diagram are contained in Annexes A and B. The development of the curves since September 1925 reflects the reduction in the amount of credits granted by the Bank.

The Reichsbank is a paying agent for the service of the 7 per cent. German External Loan 1924; in this capacity it has dealt with the cashing of the interest coupons of all the sterling "tranches" of the Loan.

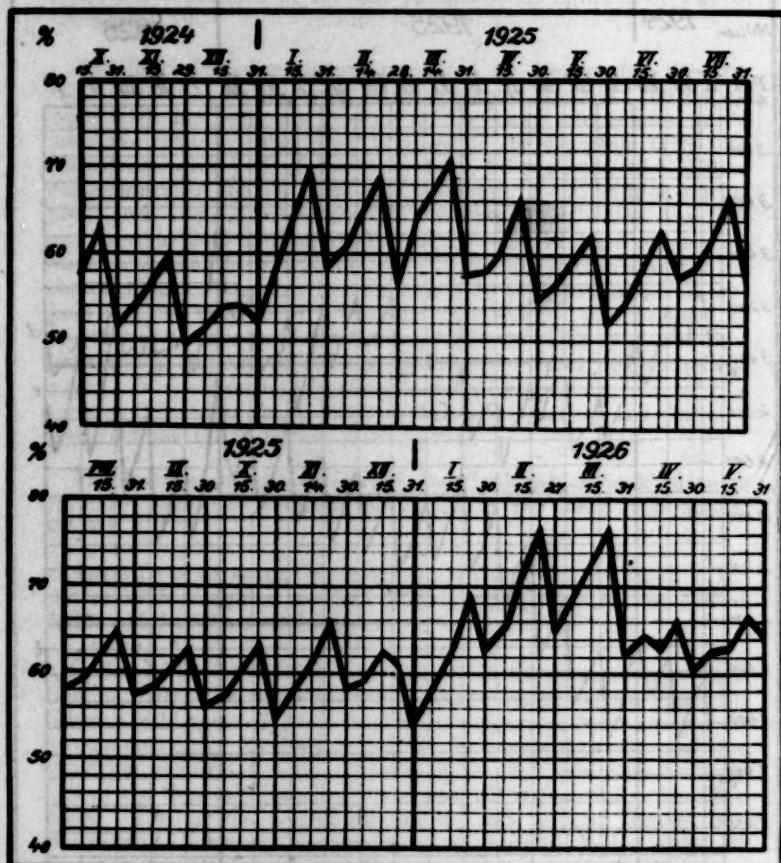
Under the Law of July 16, 1925, on the Liquidation of Public Loans, the Reichsbank is a Notification Office for Germany and abroad for the conversion of old paper mark loans of the Reich and of loans of the Federal States included in the liquidation (i. e. revalorisation) scheme.

The Reichsbank dealt with the issue of:

50,000,000 reichsmarks 6½ per cent. Treasury Bonds of the German Postal Service,

Diagram II.

Percentual cover of Reichsbank notes in Gold and „Devisen“ available for cover.



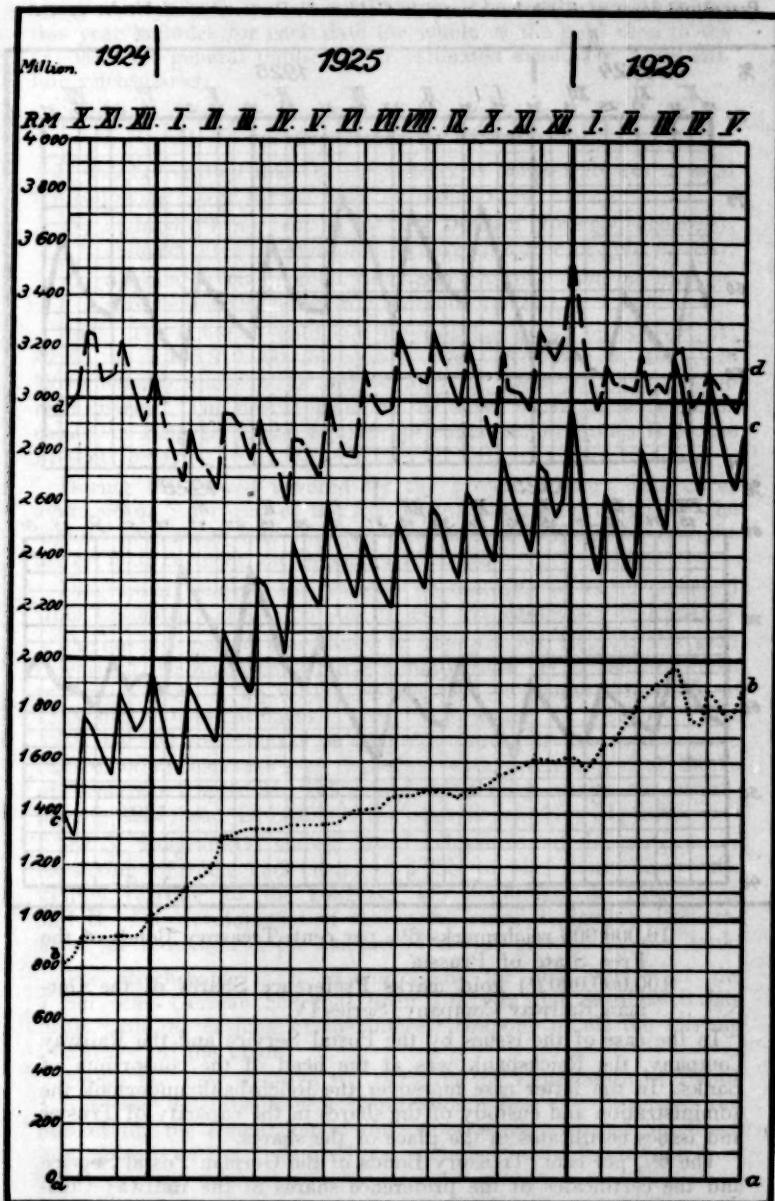
10,000,000 reichsmarks 6½ per cent. Treasury Bonds of the Free State of Prussia,
100,000,000 (*) gold marks Preference Shares of the German Railway Company, Series IV.

In the case of the issues by the Postal Service and the Railway Company, the Reichsbank was at the head of the consortium of Banks. In the latter case moreover the Reichsbank undertook the administration and custody of the shares in the capacity of Trustee and issues certificates in the place of the shares.

The 6½ per cent. Treasury Bonds of the German Postal Service and the certificates of the preference shares of the Railway Com-

¹ The total amount of the issue is 150 million gold marks. 50 million gold marks of which had already been taken over and blocked for 12 months.

Diagram III.



a - b. Gold holdings + Devisen available for cover

b — d. Bills and cheques

a - c. Circulation of Reichsbank notes

pany, issued by the Reichsbank, may be accepted—in virtue of decisions adopted by the General Council—as collateral for loans under the conditions of the last paragraph of figure 3 of § 21 of the Bank Law.

The Reichsbankdirektorium presented its Report for the year 1925 to the General Meeting held on March 26, 1926. The Report deals with the economic position of Germany and relates to the measures taken by the Bank to alleviate the economic crisis. In accordance with § 37 of the Bank Law, 20 per cent. (8.5 million reichsmarks) of the net profit to the amount of 42.7 million reichsmarks was carried to the statutory reserve fund, which was thus increased to 34.0 million reichsmarks, while 12.2 million reichsmarks remained for the Reich and 22.0 million reichsmarks for the shareholders. From this last amount a 10 per cent. dividend was paid and the balance of 9.7 million reichsmarks was assigned to the special reserve fund for future dividends. This fund was thus increased at the end of 1925 to an amount of 43.1 million reichsmarks. In addition it was possible to place sums to reserve, i. a. for the Delcredere fund, (23.0 million reichsmarks) and for new constructions (13.0 million reichsmarks).

The increase in the capital of the Bank which took place in January 1925 was already mentioned in the 1924-1925 annual Report.

Apart from its special reserves, the net assets of the Bank at the end of 1925 amounted to 156.7 million reichsmarks (at the end of 1924: 115.4 million reichsmarks).

Under § 31 of the Bank Law, the Reichsbank is under obligation to redeem its notes to bearer, at the option of the Bank, in German gold coins, in gold bars, or in cheques or orders to pay in foreign currency. According to § 52, the coming into force of this provision requires a joint decision of the Reichsbankdirektorium and of the General Council. Up to now no such decision has been taken. During the period covered by the present Report, the Reichsbank, however, has continued to comply fully with all demands for Devisen at a dollar rate of 4.20 and vice versa to accept all Devisen offered to it at the same rate.

It should further be mentioned that the Government of the Reich has drafted the text of a Bill for the Amendment of § 21 of the Bank Law, under which the Reichsbank will in future be authorised to discount and accept as collateral short-dated Treasury Bills of the Reich backed by a third person. The maximum amount fixed in the Bill is 400 million reichsmarks. The right of the Reichsbank to grant the Reich working credits to an amount not exceeding 100 millions (§ 25) is not affected by the Bill.

With reference to the *Golddiskontbank* it may be mentioned that the maximum figure for discounts during the business year 1925 was £ 9,268,000, an amount which was reached on December 7,

1925. The reason why this sum is considerably below the maximum figure for 1924 is probably that in the meantime the German economy received considerable foreign credits through other channels.

The Golddiskontbank was able to satisfy the demands made upon it for the most part from its own resources. In addition it was entitled to rediscount with the Reichsbank, a possibility of which it availed itself during the business year by the presentation of Bills to the total amount of £ 6,437,630. These rediscounts reached their maximum at the beginning of December 1925 when they amounted in round figures to £ 1,400,000.

Further, credit agreements were concluded with American Banks to the total amount of £ 12,000,000. This sum was drawn upon to the extent of only \$ 8,100,000, of which \$ 4,100,000 was reimbursed during the year under consideration in the present Report. The balance of \$ 4,000,000 has in the meantime also been repaid.

The discount rate of the Golddiskontbank was reduced on October 14, 1925 to 6 per cent. As from March 27, 1926, it was further reduced to $5\frac{1}{2}$ per cent.

In January 1926 it was stated that the Golddiskontbank was prepared to purchase agricultural mortgage bonds to be issued by the Rentenbank Kreditanstalt for periods of from 3 to 5 years. The credit, which is expected to amount to a sum not exceeding 250 million reichsmarks, will yield net interest at the rate of from $7\frac{1}{2}$ to $7\frac{3}{4}$ per cent. Technical difficulties in regard to its execution have delayed the credit operations, so that up till now only some 100 million reichsmarks have been loaned.

On the occasion of its fiftieth anniversary on January 1, 1926, the Reichsbank published a Memorandum which gives a historical survey of the activities of the Bank during the last 25 years, in continuation of the work entitled "Die Reichsbank 1876-1900" which was published in 1901 and deals with the first 25 years of the Bank. Valuable statistical material is appended to the Memorandum.

Some aspects of the credit policy of the Reichsbank.

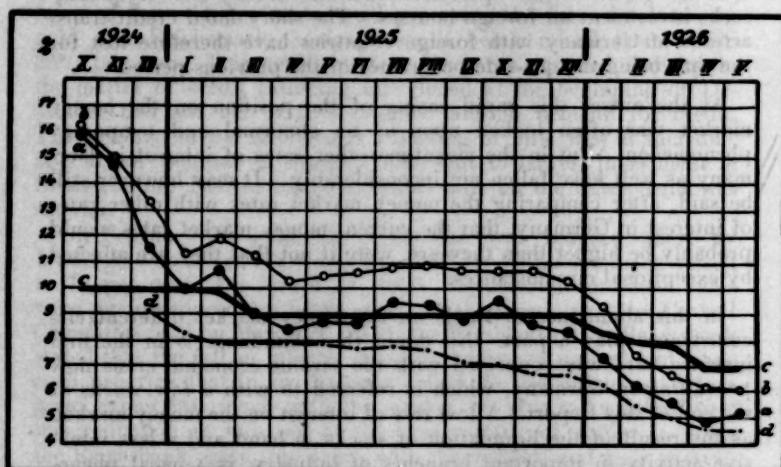
During the period covered by the present Report essential changes have occurred in *the position on the German money market*. For a proper understanding of the policy of the Reichsbank during the period under consideration, the development of the money market must therefore first be considered.

When the Dawes Plan first came into application, the rate of interest on the money market varied between 14 and 18 per cent. As is clear from diagram III in the previous Report, the rate for call money fluctuated more considerably than the rate for monthly loans. Even before the end of 1924, however, a reduction was noticeable, and from March 1925, until November 1925, the day-to-day rate was not far removed from the discount rate of the Reichsbank, which on February 26, 1925, was reduced to 9 per

cent¹. The quotation for monthly loans, although during this period it was often merely nominal, was in general about $1\frac{1}{2}$ per cent. higher. The private discount rate was lower. As explained in the previous Report, the private discount market was limited in extent: it was then chiefly supplied by public monies. The rate of interest for current account credits in the banks belonging to the Berliner Stempelvereinigung during these months remained unchanged at 14 per cent., while the rate of interest for long term credits—that is, the rate for mortgage bonds of first class institutions—was only very slightly reduced during the period from approximately $10\frac{1}{2}$ to 10 per cent.

This was the position at the time of the publication of the previous Report (October 1925).

Diagram IV.



- a. Day-to-day money
- b. Monthly money
- c. Reichsbank discount
- d. Private discount

An important change soon occurred (see diagram IV and Annex D). In November 1925 the rate for short dated credits began to fall, and in a few months the rate for call money had been reduced to 5 per cent. and the rate for monthly loans to $6\frac{1}{2}$ per cent. The nature of the market changed entirely. Whereas formerly all offers were immediately accepted, at the beginning of 1926 it frequently happened that large sums on the German money market could only find borrowers under conditions which were hardly better, and in many cases were even more unfavourable, than those of foreign markets. Only on the last days of the month was the usual rise noticeable in rates of interest; this rise however soon became definitely smaller than it had been in the previous period.

¹ This is clear from Diagram IV, which now gives monthly averages, which show more clearly the general development.

On the private discount market also rates of interest are relatively lower. Private banks and foreign countries are taking an increasingly prominent part in the transactions of the market. Here too as a result of the cheapness of money the supply exceeds the demand, since the banks still display much reserve in granting their signatures and prefer to retain such first class investments in their own portfolios.

The same applies to the market for commercial bills with a Banker's endorsement: the quotation fell from 9 per cent. in September 1925, to $5\frac{1}{4}$ per cent. in May 1926.

One of the consequences of this plentiful supply of money, which has already persisted, with certain fluctuations, for 5 months, was that, whereas Germany until a short time ago was almost always the debtor in international credit transactions—and that also in the case of short dated operations—German money now frequently seeks investment on foreign bourses. The short dated credit transactions of Germany with foreign countries have therefore lost for the time being the one-sided character of the previous period.

At the outset this rapid easing of the position on the money market was often looked upon as an abnormal and temporary phenomenon. But in the meantime other rates of interest in Germany as well have fallen not inconsiderably. It may however still be said, after comparing the money market rates with other rates of interest in Germany, that the current money market rates would probably be higher than they are, were it not that they are affected by exceptional circumstances.

In this abundance of funds on the money market different circumstances play a part. No doubt this abundance is in the first instance narrowly connected with the serious economic crisis now prevailing in Germany, which is referred to with a few words at the end of this Report. A low rate of interest on the money market, as the result of the liquidation of stocks in hand and a less intensive activity in important branches of industry, is a usual phenomenon during periods of economic depression. The abnormally large supply of public funds, already discussed in the previous Report, has undoubtedly also helped to ease the money market, although the surpluses of the Reich have recently fallen considerably. Further, the long dated foreign credits which still pour into Germany—although somewhat more slowly—have resulted in an increase in the available funds, since as a rule the proceeds in the first instance seek investment on the money market. In addition it would appear that on other grounds also large sums from abroad find their way directly or indirectly to the German money market.

This development of the money market very soon affected the Reichsbank. As stated in the previous Report, the Reichsbank was obliged to retain, during the whole of the period covered by that Report, the policy of restricting credits, which it instituted on April 7, 1924. It was not long, however, before the claims on the Reichsbank began to show a decrease, a development which gradually took such a course that the President of the Reichsbank was

able to state, at a meeting of the Central Committee held on December 3, 1925, that the credit position of the bank had become such that it was possible to meet the economic requirements of the country without keeping rigidly to the existing credit restriction. As a result of the steps which he proposed to take, the Reichsbank would no longer (as was stated later) be obliged to refuse to discount bills merely in order to avoid exceeding the prescribed rationing; in future every application for credit would again be examined on its own merits. In the opinion of the Reichsbankdirektorium, at that moment the time for a reduction in the discount rate—especially in view of the heavy demands expected at the end of the year—had not yet come.

Already on January 12, 1926, it was decided to make a beginning with reduction. The discount rate was reduced from 9 per cent. to 8 per cent. and the rate for loans against security was lowered from 11 per cent. to 10 per cent., the limit for loans on gold and Reichsmark mortgage bonds being raised from 50 to 66½ per cent. This could be done since the reduced severity in the matter of credit rationing introduced at the beginning of December had not led to an increased internal demand for credit. The increase in the Reichsbank's holding of bills was in fact due, not to an increase in German bills, but to larger investment in foreign bills. The holding of German bills on the other hand was smaller.

On February 26, 1926, the loan rate was reduced anew by 1 per cent. to 9 per cent. and the limit for collateral loans raised to 75 per cent. On March 27, 1926, the discount and loan rates were again reduced by 1 per cent. At the meeting of the Central Committee held on March 26, 1926, the President of the Reichsbank stated that the fall in interest rates on the money market had made such progress that in its discount policy the Reichsbank had to a great extent lost touch with the market. It was to be feared that this reduction in the rate of discount would not suffice to bring the Reichsbank again into touch with the market; and so it proved: instead the holding of inland bills has constantly become smaller, and even the reduction of the discount rate from 7 to 6½ per cent., and of the rate for loans from 8 to 7½ per cent., which took place on June 7, 1926, will not for the present suffice to restore contact. In support of this latter reduction the President of the Reichsbank argued that the Reichsbank could not withdraw itself wholly from the formation of interest rates on the open market and that in addition it must be the desire of the Bank to give the country all the benefits of a reduction in the discount rate.

Another consequence of the abundance on the money market was the possibility of granting more acceptance credits. As already stated in the previous Report, the Stempelvereinigung had decided in the spring of 1925 on its own initiative, in accordance with the Reichsbank, to restrict the granting of acceptance credits to 50 per cent. of the capital (including reserve) of each bank concerned. In the beginning of May, the Stempelvereinigung decided to abolish this restriction. On May 14, 1926, the Reichsbank declared its assent to this arrangement. The special rationing of bank accep-

tances by the Reichsbank, representing the last remaining part of the general system of rationing, thus lapsed.

The development of the money market has also played a part in deciding the situation of the Reichsbank in regard to the foreign exchange market. The practical monopoly in Devisen enjoyed by the Reichsbank during the period when German rates of interest were considerably higher than those abroad is for the time being almost entirely lost. As already stated, the private banks also now have considerable holdings of Devisen. On the last days of every month, however, the Devisen holdings of the Reichsbank temporarily show a considerable increase since the presentation of Devisen to the banks is the favorite method of obtaining the liquid funds required for a few days.

On May 1, 1926, the still existent provisions relating to Devisen were for the greatest part abolished. The only regulation retained was that for trade in Devisen official consent is still required. The prohibition with regard to forward Devisen transactions and the provisions relating to a uniform rate of exchange were cancelled. Under the provision relating to a uniform rate of exchange, Devisen officially quoted in Berlin could not be acquired or surrendered in exchange for German media of payment at a rate higher than the last officially published Berlin rate—which is daily fixed under the control of the Reichsbank. The official comment was as follows: "The Government of the Reich in agreement with the Reichsbank-direktorium is of opinion that German currency may now be considered sufficiently stabilised not to require the protection of these provisions."

In the meantime, even after the cancellation of the uniform rate of exchange, the Reichsbank has still retained the dollar rate of 4.20. As a result of this measure, the main object of which is to prevent too great interest fluctuations on the German money market, the extent of the forward Devisen market is still small. There is no possibility of development for a market in dollars, while for other currencies the Berlin rates reflect in fact the New York rates.

The reduction in the Reichsbank's holding of inland bills, which accompanied the above-mentioned development of interest rates on the money market, was one of the reasons why the Reichsbank was compelled considerably to reduce the amount of bills passed on by it to public departments. On March 12, 1926, notification to this effect was sent to the Finance Administration of the Reich, the Postal Administration of the Reich and the German Railway Company. The Reichsbank, however, declared its readiness to undertake as commission agent the investment on the bourse and elsewhere of any sums which may become free; in such cases of course no responsibility for risk would be assumed.

The capital market, as well as the money market, has changed considerably during the last few months. Nevertheless the development on the latter market was more gradual than, and not so fast as, that on the money market. Whereas a year ago only a limited amount of mortgage bonds could find a market and the demand of other long term credit could only be covered except-

tionally and even then in most cases provisionally by short term funds, there now again exists a regular capital market and great activity has even been displayed during the last few months in the issue of German bonds of various kinds. The total proceeds of these issues in the first four months of 1926 are estimated at a net sum of from 850 to 900 million reichsmarks, a part of which, however, was apparently taken up abroad. The issue of 150 million gold marks of preference shares of the German Railway Company, to which reference was made on page 6, is the largest issue placed up to the present on the German market.

Although this development on the capital market may be ascribed in part to the interdependence of this market and the money market, it is nevertheless a fact, as is shown *inter alia* by the deposits of the savings banks and private banks, that the formation of fresh capital in Germany is making great progress. In accordance with this development of the market the rate for long term credit has also fallen gradually. The interest on mortgage bonds of first class institutions which, as already stated, was still 10 per cent. eight months ago, now amounts to approximately 8 per cent., while the effective yield on new bond issued is usually about the same.

The Reichsbank for its part has endeavoured as far as possible to place in long term investments funds not required on the money market. In this connection mention should be made of the extension in the categories of mortgage bonds accepted as collateral for loans and the raising of the limit for loans, the pressure brought to bear with a view to obtaining the investment of public monies in mortgage bonds, the efforts of the Bank to improve the relation between the short term and long term indebtedness of Germany to foreign countries and the credit action of the Golddiskontbank in support of agriculture.

Reference was made on page 6 to the activities of the Reichsbank in connection with loan issues.

The rates of interest and commission for current account bank credits have also been reduced. From March 1925, to October 1925, the total rate was as already mentioned fixed for the Berlin banks at 14 per cent., as a result of decisions adopted by the Stempelvereinigung. Owing to a reduction in commission, it was decreased on October 1, 1925, to 13.4 per cent. On the occasion of the reduction in the discount rate of the Reichsbank, it was further reduced in January 1926, to 12.4 per cent., the interest on deposits being at the same time also reduced by 1 per cent. On March 1, 1926, the rate of interest on current account credits was fixed at 11.4 per cent, while, apart from a few exceptional cases, the rate of interest on deposits was not raised. The "spread" between the credit and deposit rates of the banks was thus reduced by 1 per cent. In June 1926, the interest on deposits was maintained at the rates then prevailing (for day-to-day deposits 3½ per cent. and for commission-free accounts 3 per cent.), in spite of the fact that as a result of the reduction in the discount rate the rate of interest on credits was automatically decreased from 10.4 per cent. to 9.9 per cent. As a result of these measures the "spread" between the credit and deposit rates was further reduced by ½ per cent.

Outside Berlin interest rates are frequently considerably higher. The Reichsbank is conducting an enquiry into interest conditions throughout the Reich, the results of which are not yet available.

Although it is possible to point to special circumstances which have perhaps made rates of interest on the money market temporarily lower than they would otherwise have been, the development described above nevertheless represents a new phase in the definitive stabilisation of German currency. A *short survey* of the general development accordingly forms a suitable conclusion to the present Report.

The stabilisation of German currency began on November 15, 1923. It was carried through without foreign assistance, but was much helped by the very great difference between the level of interest rates in Germany and abroad, which provided considerable inducement for the repatriation of sums temporarily deposited abroad. On November 15, 1923, the total circulation of Germany had a value of 458.7 million gold marks. By the introduction of the Rentenmark this sum was increased by approximately two milliards. There followed a period, during which the level of prices in Germany and the development of the circulation were gradually adjusted to the new monetary unit¹.

The continuous expansion of credit, which is characteristic of this period, was in the case of internal credits considerably checked by the decision adopted by the Reichsbankdirektorium on April 7, 1924, to restrict its credits to the amount reached on that date. A certain additional expansion resulted from the credits granted by foreign countries: but there can be no doubt that it was the Reichsbank restriction policy in the first instance that compelled the German economy to adapt itself to the new monetary stability, which in the meantime was drawing further strength from the Dawes Loan and other measures adopted in execution of the London Protocol. This adaptation not only involved a definite break with the psychology of the Inflation period: it meant also that the whole structure of the producing and distributing organisation of the country, which during the period of collapse of the currency had undergone manifold changes, had again to be adjusted to normal conditions. It is for this reason that the depression now prevailing in most countries with stable currencies has in Germany taken the form of such a serious crisis. The process of reform is now well under way, and the strength of the psychological forces, by which the process was at first impeded, is now broken. In this sense the present improvement on the money market, although due, it may be, in part to special reasons, is an important symptom, and it is in this respect that we are able to speak of a new phase in the definitive stabilisation of German currency.

Berlin, June 1926.

G. W. J. Bruins.

¹ The total circulation has in course of time attained a condition of equilibrium at about 4.5 to 5 milliards.

Annex A.

Means of payment in circulation 1924—26.
(In millions of reichsmarks.)

Date	Reichsbank Notes in circulation	Total circulation of means of payment
October 15, 1924	1,396.7	3,539.4
October 23, 1924	1,313.1	3,388.7
October 31, 1924	1,780.9	3,874.0
November 7, 1924	1,721.8	3,751.8
November 15, 1924	1,633.2	3,614.5
November 23, 1924	1,550.1	3,512.3
November 30, 1924	1,863.2	3,991.9
December 7, 1924	1,804.0	3,938.0
December 15, 1924	1,723.2	3,858.0
December 23, 1924	1,765.0	4,000.4
December 31, 1924	1,941.4	4,304.7
January 7, 1925	1,799.8	4,052.8
January 15, 1925	1,646.2	3,834.3
January 23, 1925	1,550.0	3,695.0
January 31, 1925	1,901.2	4,233.7
February 7, 1925	1,839.5	4,102.9
February 14, 1925	1,760.0	3,974.1
February 23, 1925	1,682.8	3,838.9
February 28, 1925	2,106.2	4,409.7
March 7, 1925	2,035.5	4,276.8
March 14, 1925	1,947.7	4,145.0
March 23, 1925	1,865.9	3,992.7
March 31, 1925	2,314.6	4,506.4
April 7, 1925	2,293.3	4,428.0
April 14, 1925	2,187.7	4,252.8
April 23, 1925	2,022.1	3,968.9
April 30, 1925	2,451.8	4,525.1
May 7, 1925	2,386.5	4,406.2
May 15, 1925	2,269.5	4,261.3
May 23, 1925	2,202.8	4,163.4
May 30, 1925	2,604.8	4,791.9
June 7, 1925	2,488.1	4,536.4
June 15, 1925	2,362.9	4,339.0
June 23, 1925	2,238.6	4,202.8
June 30, 1925	2,474.4	4,801.4
July 7, 1925	2,442.6	4,679.2
July 15, 1925	2,297.9	4,467.3
July 23, 1925	2,200.9	4,320.8
July 31, 1925	2,530.3	4,911.5
August 7, 1925	2,472.7	4,771.7

Date	Reichsbank Notes in circulation	Total circulation of means of payment
August 15, 1925.....	2,373.2	4,625.4
August 22, 1925.....	2,292.3	4,486.1
August 31, 1925.....	2,594.6	5,004.1
September 7, 1925.....	2,559.3	4,898.1
September 15, 1925.....	2,413.3	4,672.5
September 23, 1925.....	2,811.7	4,506.1
September 30, 1925.....	2,649.1	5,081.1
October 7, 1925.....	2,807.8	4,936.0
October 15, 1925.....	2,493.9	4,718.0
October 23, 1925.....	2,395.2	4,528.6
October 31, 1925.....	2,802.9	5,082.9
November 7, 1925.....	2,677.6	4,876.7
November 14, 1925.....	2,558.8	4,691.2
November 23, 1925.....	2,423.9	4,483.8
November 30, 1925.....	2,770.9	5,004.4
December 7, 1925.....	2,734.3	4,900.0
December 15, 1925.....	2,566.3	4,676.9
December 23, 1925.....	2,623.4	4,780.7
December 31, 1925.....	2,960.4	5,208.5
January 7, 1926.....	2,732.1	4,846.8
January 15, 1926.....	2,508.0	4,556.6
January 23, 1926.....	2,341.0	4,332.8
January 30, 1926.....	2,648.8	4,863.8
February 6, 1926.....	2,563.1	4,698.5
February 15, 1926.....	2,419.9	4,480.6
February 23, 1926.....	2,317.3	4,316.0
February 27, 1926.....	2,822.3	4,941.7
March 6, 1926.....	2,729.7	4,786.8
March 15, 1926.....	2,604.5	4,592.1
March 23, 1926.....	2,513.7	4,403.3
March 31, 1926.....	3,159.6	5,088.3
April 7, 1926.....	3,061.4	4,938.6
April 15, 1926.....	2,790.3	4,583.4
April 23, 1926.....	2,645.9	4,426.5
April 30, 1926.....	3,085.9	5,062.1
May 7, 1926.....	2,941.4	4,882.1
May 15, 1926.....	2,783.2	4,726.7
May 22, 1926.....	2,663.0	4,617.4
May 31, 1926.....	2,878.0	5,085.0

Means of Payment in circulation 1913.

(In millions of reichsmarks.)

Date	Reichsbank Notes in circulation	Total Circulation of Means of Payments
January 7, 1913.....	2,237.4	6,097.6
January 15, 1913.....	1,983.5	5,844.9
January 23, 1913.....	1,853.1	5,717.2
January 31, 1913.....	1,961.9	5,800.6
February 7, 1913.....	1,879.4	5,728.8
February 15, 1913.....	1,774.3	5,622.2
February 23, 1913.....	1,711.7	5,561.6
February 28, 1913.....	1,876.0	5,711.3
March 7, 1913.....	1,818.3	5,657.6
March 15, 1913.....	1,774.7	5,625.2
March 22, 1913.....	1,780.3	5,636.2
March 31, 1913.....	2,324.7	6,176.5
April 7, 1913.....	2,133.2	5,986.8
April 15, 1913.....	1,939.6	5,796.8
April 23, 1913.....	1,842.7	5,702.0
April 30, 1913.....	2,050.6	5,891.6
May 7, 1913.....	1,975.2	5,820.8
May 15, 1913.....	1,849.7	5,698.0
May 23, 1913.....	1,758.4	5,606.2
May 31, 1913.....	1,912.7	5,745.9
June 7, 1913.....	1,820.7	5,658.8
June 14, 1913.....	1,775.7	5,617.4
June 23, 1913.....	1,754.6	5,601.2
June 30, 1913.....	2,316.8	6,171.5
July 7, 1913.....	2,132.0	5,989.0
July 15, 1913.....	1,933.7	5,794.5
July 23, 1913.....	1,826.0	5,686.5
July 31, 1913.....	1,948.7	5,785.3
August 7, 1913.....	1,877.0	5,716.5
August 16, 1913.....	1,811.8	5,653.3
August 23, 1913.....	1,754.4	5,596.8
August 30, 1913.....	1,915.7	5,743.3
September 6, 1913.....	1,874.4	5,712.0
September 15, 1913.....	1,837.4	5,684.8
September 23, 1913.....	1,847.7	5,701.2
September 30, 1913.....	2,455.6	6,308.0
October 7, 1913.....	2,252.6	6,110.9
October 15, 1913.....	2,085.3	5,924.8
October 23, 1913.....	1,959.4	5,819.8
October 31, 1913.....	2,118.7	5,956.2
November 7, 1913.....	2,018.2	5,860.4
November 15, 1913.....	1,927.6	5,775.0
November 22, 1913.....	1,836.7	5,685.7
November 29, 1913.....	1,981.9	5,817.9
December 6, 1913.....	1,951.9	5,797.3
December 15, 1913.....	1,929.5	5,784.6
December 23, 1913.....	2,042.3	5,908.2
December 31, 1913.....	2,593.4	6,453.2

Annex B.

Cover for Bank Notes.

(In thousands of reichsmarks.)

Date	Cover according to § 28a			Cover according to § 28b	Total Cover
	Gold holdings	Devisen available for cover (deckungs- fähige)	Total		
October 15, 1924 . .	613,625	204,541	818,166	2,153,943	2,972,109
October 23, 1924 . .	630,502	210,167	840,669	2,173,709	3,014,378
October 31, 1924 . .	694,224	231,407	925,631	2,339,662	3,265,293
November 7, 1924 . .	694,288	231,429	925,717	2,327,358	3,253,070
November 15, 1924 . .	694,626	231,541	926,167	2,144,800	3,070,967
November 22, 1924 . .	694,834	231,611	926,445	2,171,151	3,097,596
November 29, 1924 . .	695,487	231,829	927,316	2,290,166	3,217,482
December 6, 1924 . .	696,106	232,035	928,141	2,169,645	3,097,786
December 15, 1924 . .	696,185	232,061	928,246	2,079,028	3,007,274
December 23, 1924 . .	717,646	239,215	956,861	1,959,829	2,916,690
December 31, 1924 . .	759,609	253,202	1,012,811	2,064,094	3,076,905
January 7, 1925 . .	780,632	260,210	1,040,842	1,883,546	2,924,388
January 15, 1925 . .	791,652	263,883	1,055,535	1,743,587	2,799,122
January 23, 1925 . .	813,126	271,041	1,084,167	1,607,712	2,691,879
January 31, 1925 . .	834,231	278,077	1,112,308	1,770,733	2,883,041
February 7, 1925 . .	844,807	281,602	1,126,409	1,846,832	2,773,241
February 14, 1925 . .	865,795	288,598	1,154,393	1,574,830	2,729,223
February 23, 1925 . .	879,955	293,318	1,173,273	1,485,322	2,658,595
February 28, 1925 . .	907,277	302,425	1,209,702	1,737,153	2,946,855
March 7, 1925	984,169	328,389	1,313,558	1,633,088	2,946,646
March 14, 1925	985,223	328,407	1,313,630	1,582,892	2,965,522
March 23, 1925	996,085	332,028	1,328,113	1,438,400	2,766,513
March 31, 1925	1,003,377	334,459	1,337,836	1,578,199	2,916,035
April 7, 1925	1,003,430	334,476	1,337,906	1,486,971	2,824,877
April 15, 1925	1,003,735	334,578	1,338,313	1,422,456	2,760,769
April 23, 1925	1,004,098	334,699	1,338,797	1,266,653	2,605,450
April 30, 1925	1,014,173	338,057	1,352,230	1,496,212	2,848,442
May 7, 1925	1,014,271	338,090	1,352,361	1,492,258	2,844,619
May 15, 1925	1,014,754	338,251	1,353,005	1,416,922	2,769,927
May 23, 1925	1,015,292	338,430	1,353,722	1,351,303	2,705,025
May 30, 1925	1,015,661	338,553	1,354,214	1,648,438	3,002,652
June 6, 1925	1,015,841	338,613	1,354,454	1,522,215	2,876,669
June 15, 1925	1,040,194	346,731	1,386,925	1,402,532	2,789,457
June 23, 1925	1,061,641	353,889	1,415,521	1,366,026	2,781,547
June 30, 1925	1,061,717	353,905	1,415,622	1,691,467	3,107,089
July 7, 1925	1,065,601	355,200	1,420,801	1,579,680	3,000,481
July 15, 1925	1,068,673	356,224	1,424,897	1,526,453	2,951,350

Date	Cover according to § 28a			Cover according to § 28b	Total cover
	Gold holdings	Devisen available for cover (deckungsfähige)	Total		
July 23, 1925	1,103,001	367,667	1,470,668	1,487,561	2,958,239
July 31, 1925	1,104,136	368,045	1,472,181	1,789,240	3,261,421
August 7, 1925	1,113,678	358,511	1,472,189	1,706,121	3,178,310
August 15, 1925	1,114,550	357,663	1,472,213	1,617,917	3,090,130
August 22, 1925	1,137,231	358,429	1,493,660	1,566,142	3,061,802
August 31, 1925	1,138,361	357,458	1,495,819	1,764,980	3,260,799
September 7, 1925	1,144,046	351,803	1,495,849	1,700,516	3,196,365
September 15, 1925	1,144,523	332,605	1,477,128	1,601,596	3,078,724
September 23, 1925	1,174,766	284,542	1,459,308	1,528,495	2,987,803
September 30, 1925	1,174,709	318,923	1,493,632	1,717,304	3,210,936
October 7, 1925	1,174,661	321,386	1,496,047	1,636,016	3,132,063
October 15, 1925	1,204,514	306,414	1,510,928	1,483,169	2,994,097
October 23, 1925	1,204,718	323,469	1,528,187	1,311,481	2,839,668
October 31, 1925	1,206,866	348,321	1,555,187	1,630,076	3,185,263
November 7, 1925	1,206,897	361,068	1,567,965	1,474,296	3,042,261
November 15, 1925	1,206,959	375,250	1,582,218	1,442,962	3,025,180
November 23, 1925	1,207,200	392,496	1,599,686	1,379,507	2,979,203
November 30, 1925	1,207,262	402,420	1,609,682	1,649,738	3,259,420
December 7, 1925	1,207,269	402,423	1,609,692	1,593,611	3,203,303
December 15, 1925	1,207,666	394,875	1,602,541	1,565,026	3,167,567
December 23, 1925	1,207,960	401,811	1,609,771	1,620,385	3,230,156
December 31, 1925	1,208,074	402,534	1,610,608	1,914,780	3,525,388
January 7, 1926	1,208,105	402,701	1,610,806	1,737,674	3,348,480
January 15, 1926	1,208,433	368,135	1,576,568	1,536,773	3,113,341
January 23, 1926	1,249,806	378,993	1,628,799	1,350,627	2,979,426
January 31, 1926	1,254,995	418,331	1,673,326	1,464,386	3,137,712
February 7, 1926	1,255,617	418,539	1,674,156	1,411,337	3,085,493
February 15, 1926	1,307,236	432,397	1,739,633	1,320,752	3,060,385
February 23, 1926	1,361,359	419,167	1,780,526	1,266,053	3,046,579
February 27, 1926	1,382,388	460,796	1,843,184	1,345,953	3,189,137
March 7, 1926	1,404,902	468,300	1,873,202	1,159,641	3,032,843
March 15, 1926	1,427,936	475,978	1,903,914	1,167,320	3,071,234
March 23, 1926	1,449,159	483,053	1,932,212	1,094,466	3,026,678
March 31, 1926	1,491,089	481,164	1,972,253	1,215,877	3,188,130
April 7, 1926	1,491,122	481,397	1,972,519	1,227,669	3,200,188
April 15, 1926	1,491,217	278,354	1,763,571	1,227,861	2,997,432
April 23, 1926	1,491,438	256,376	1,717,814	1,161,072	2,908,886
April 30, 1926	1,491,509	391,024	1,882,533	1,213,741	3,096,274
May 7, 1926	1,491,543	347,670	1,839,213	1,219,839	3,059,052
May 15, 1926	1,491,641	272,288	1,763,929	1,248,982	3,012,911
May 22, 1926	1,491,861	296,584	1,788,445	1,175,257	2,963,702
May 31, 1926	1,491,949	387,531	1,879,480	1,244,354	3,123,834

Annex C.

Percentual cover of the Bank Notes.

Date	Cover in Gold and Devisen	Cover only in gold
	%	%
October 15, 1924	58.6	43.9
October 23, 1924	64.0	48.0
October 31, 1924	52.0	39.0
November 7, 1924	53.8	40.8
November 15, 1924	56.7	42.5
November 22, 1924	59.8	44.8
November 29, 1924	49.8	37.8
December 6, 1924	51.4	38.6
December 15, 1924	58.9	40.4
December 23, 1924	54.2	40.7
December 31, 1924	52.2	39.1
January 7, 1925	57.8	43.4
January 15, 1925	64.1	48.1
January 23, 1925	69.9	52.5
January 31, 1925	58.5	43.9
February 7, 1925	61.2	45.9
February 14, 1925	65.6	49.2
February 23, 1925	69.7	52.3
February 28, 1925	57.4	43.1
March 7, 1925	64.5	48.4
March 14, 1925	67.4	50.6
March 23, 1925	71.2	53.4
March 31, 1925	57.8	43.8
April 7, 1925	58.8	43.8
April 15, 1925	61.2	45.9
April 23, 1925	66.2	49.7
April 30, 1925	55.1	41.4
May 7, 1925	56.7	42.5
May 15, 1925	59.6	44.7
May 23, 1925	61.5	46.1
May 30, 1925	51.9	38.9
June 6, 1925	54.4	40.8
June 15, 1925	58.7	44.0
June 23, 1925	63.2	47.4
June 30, 1925	57.2	42.9
July 7, 1925	58.2	43.6
July 15, 1925	62.0	46.5
July 23, 1925	66.8	50.1
July 31, 1925	58.2	43.6
August 7, 1925	59.5	45.0
August 15, 1925	62.0	47.0

Date	Cover in Gold and Devisen	Cover only in gold
	%	%
August 22, 1925	65.2	49.6
August 31, 1925	57.7	43.9
September 7, 1925	58.4	44.7
September 15, 1925	61.2	47.4
September 23, 1925	63.1	50.8
September 30, 1925	56.4	44.3
October 7, 1925	57.4	45.0
October 15, 1925	60.6	48.3
October 23, 1925	63.8	50.3
October 31, 1925	55.5	43.1
November 7, 1925	58.6	45.1
November 15, 1925	61.8	47.2
November 23, 1925	66.0	49.8
November 30, 1925	58.1	43.6
December 7, 1925	58.9	44.2
December 15, 1925	62.4	47.1
December 23, 1925	61.4	46.0
December 31, 1925	54.4	40.8
January 7, 1926	59.0	44.2
January 15, 1926	62.9	48.2
January 23, 1926	69.6	53.4
January 30, 1926	63.2	47.4
February 6, 1926	65.3	49.0
February 15, 1926	71.9	54.0
February 23, 1926	76.8	58.7
February 27, 1926	65.3	49.0
March 6, 1926	68.6	51.5
March 15, 1926	73.1	54.8
March 23, 1926	76.9	57.6
March 31, 1926	62.4	47.2
April 7, 1926	64.4	48.7
April 15, 1926	63.4	53.4
April 23, 1926	66.1	56.4
April 30, 1926	61.0	48.8
May 7, 1926	62.5	50.7
May 15, 1926	63.4	53.6
May 22, 1926	67.2	56.0
May 31, 1926	65.3	51.1

Annex D.

Movement of Money Rates October 1924—May 1926.
(Monthly Average.)

	Reichsbank Discount-Rate %	Rate of Day to Day Money %	Rate of Money at one month %	Private Discount-Rate %
1924				
October	10.00	15.85	16.20	—
November	10.00	14.78	15.00	—
December	10.00	11.53	13.32	9.19
1925				
January	10.00	10.00	11.30	8.31
February	9.88	10.70	11.93	8.00
March	9.00	9.00	11.30	8.00
April	9.00	8.48	10.28	8.00
May	9.00	8.83	10.50	7.98
June	9.00	8.76	10.64	7.75
July	9.00	9.40	10.85	7.87
August	9.00	9.30	10.95	7.68
September	9.00	8.94	10.73	7.18
October	9.00	9.61	10.72	7.09
November	9.00	8.70	10.73	6.77
December	9.00	8.40	10.37	6.75
1926				
January	8.32	7.29	9.28	6.27
February	8.00	6.10	7.44	5.46
March	7.85	5.61	6.77	5.00
April	7.00	4.93	6.13	4.86
May	7.00	5.15	6.00	4.69

Berlin, June 12, 1926.

Report of the Commissioner for the German Railways to the Reparation Commission.

(September 1, 1925, to May 31, 1926).

On December 31, 1925, the first financial year of the German Railway Company came to an end, its duration having been fixed by exception at 15 months beginning from October 1, 1924. In future the financial years of the Company will coincide with the calendar year.

The Company has just published the accounts for its first working year; the object of the present Report is to explain the results obtained, with any necessary observations.

We shall first note that the German Railway has continued to be worked by the Company under normal conditions in accordance with the Law and the Statutes of the Railway, and in agreement with the Commissioner acting within the limits of the control which is conferred on him.

The composition of the Managing Board of the Company indicated in our previous Report has not been changed. One seat on the Board is still vacant as the result of the death of Herr Edward Arnhold on August 10, 1925. It is probable that the Government of the Reich will shortly appoint his successor.

At the end of 1926 three members of the Board appointed by the Government and three members appointed by the Trustee, whose appointment comes to an end, will have to be replaced; the retiring members will be chosen by lot in conformity with Article 13 of the Statutes.

The Railway Company has just suffered a loss in the death of its first Director General, Herr Rudolf Oeser, who passed away on June 3, 1926, after a long and cruel illness.

As Prussian Minister of Public Works from March 1919 to April 1921 and later as Transport Minister of the Reich from August 13, 1923, onwards, Herr Oeser played a considerable part in the restoration of the German railways after the War. His distinguished services made him the obvious candidate for the post of Director General of the new Company. He worked loyally and with his whole strength in order to guide its constitution and its first steps; his death is a great loss to the German Railway.

To succeed Herr Oeser the Managing Board has just appointed Herr Dorpmüller, who had been Deputy Director General since July 1, 1925. The appointment is at present submitted for confirmation to the President of the Reich, in conformity with the Statutes.

In the present Report we shall first consider Reparation payments; we shall then describe the financial position of the Company and the results of the first working year, and then the development of traffic and of railway rates since our former Report, that is, during the last four months of 1925 and the beginning of 1926.

Reparation Payments.

During the first year of application of the Plan (September 1, 1924—August 31, 1925), the Railway Company paid 200 million goldmarks, representing the interest due on its Reparation bonds.

The German Railway Company took over the operation of the railway on October 11, 1924, only, and it did not receive the lines previously worked by the Franco-Belgian Régie until November 16, 1924. As compensation for this arrangement the working profits of the Régie for the period from September 1 to November 16, 1924, were assigned to the Railway Company. The Company was further granted repayment of the transport expenses of the troops of occupation. These accounts have now been settled and the Company has received a total of 103 million francs corresponding to 20.8 million reichsmarks.

During the second year of application of the Plan (September 1, 1925—August 31, 1926) the Company has to pay 595 million goldmarks for the service of Reparation bonds. In virtue of an agreement concluded with the Agent General for Reparation Payments, the amounts due semi-annually under the Plan have been replaced until September 1, 1927, by monthly payments; consequently, during the second Reparation year the Company has to pay 50 million goldmarks on the 1st of each month (45 only on September 1, 1926), minus 6 per cent discount for the sums paid in advance on the original semi-annual instalment.

These payments have been punctually made. For the first nine months of the second Reparation year, that is up to and including June 1, 1926, they total 450 million goldmarks, or, if the discount is deducted and allowance is made for the Reichsmarks exchange, 442,410,846.08 reichsmarks.

It will be recalled that during the third Reparation year (September 1, 1926—August 31, 1927) the payments of the Company for Reparation bonds will be limited to 550 million goldmarks. During the fourth and subsequent years the Company will have to pay the standard annuity of 660 million goldmarks.

The Transport Tax was collected on behalf of the Reich during the first Reparation year. As from September 1, 1925, it has to be paid to the Agent General for Reparation Payments to an amount not exceeding 250 million goldmarks for the second Reparation year and 290 millions for each subsequent year. Under an agreement between the Agent General for Reparation Payments and the Finance Minister of the Reich, the first payment had to be made on September 21, 1921, on a basis of the receipts for August, during which month the tax would normally have gone to the Reich; by way of compensation the payment for April 21, 1926 was abolished.

The payments hitherto made are as follows:

Dates	Reichsmarks	Gold marks
September 21, 1925	27 916 800	28 010 776.15
October 21	25 734 700	25 863 240.30
November 21	25 956 922.70	26 062 187.88
December 21	20 476 937.05	20 555 933.50
January 21, 1926	20 231 873.91	20 249 247.76
February 22	14 148 289.68	14 151 431.30
March 22	16 200 479.84	16 206 460.02
April 21		
May 21	17 809 550.09	17 825 789.38
	168 475 553.27	168 925 066.29

It will be noted that a considerable fall has occurred as from December 1925. This is due to the very marked decrease in railway traffic, to which we shall return later. The decrease was greater in the case of passenger traffic than in the case of goods traffic and, as the tax is considerably higher (10 to 16 per cent.) on passenger traffic than on goods traffic (7 per cent.), the effect on the tax returns was correspondingly greater. For some weeks a certain resumption of traffic has been noticed and there is every reason to think that, in spite of the diminished returns from the tax resulting from the economic crisis, the total of 250 millions will be attained for the whole of the second Reparation year, unless further unforeseen events occur.

Sale of Preference Shares of the German Railway Company.

In addition to the payments already mentioned for the service of Reparation bonds and for the Transport Tax, the Railway Company has to make a further contribution to reparations. In conformity with § 5 of the Statutes it has to realise during the first two years of the concession one-quarter of its preference shares to a nominal value of 500 million marks, and to hand over the proceeds to the Reich. In order to fulfil this obligation, the Company handed over the preference shares for 500 millions to the Reich, as indicated in our previous Report, while at the same time reserving the right to take back the shares at any time during a period of five years with a view to their direct issue, should it consider such a course advisable.

The remaining preference shares of the Railway Company (1 500 million goldmarks) are intended to supply the necessary funds for expenditure on capital account in respect of new constructions, the extension of stations and lines, electrification, etc.

Up to the present it has not seemed possible to sell the shares on the market on acceptable terms. On the German market, still barely recovered from the inflation crisis, it was hardly possible to issue anything other than 10 per cent. Mortgage bonds or short term loans of from one to five years.

In the absence of these capital resources, the Company was obliged in 1925 to finance most of its extraordinary expenditure from its operating receipts. In order to ease this burden to some extent, the Company ceded to the Reich, by an agreement dated

September 1925, a second block of preference shares for 124 million goldmarks at a price of 120 millions; the price was paid by cancelling an old debt of 82 millions owed by the Company to the Reich, the balance of 38 millions being paid in cash on January 2, 1926. These 38 millions constituted the first loan resources on capital account.

In March 1926, as the position on the money market did not yet seem favourable for an issue, the Company ceded to the Reich a third block of preference shares, originally fixed at 100 millions, carrying a right to a dividend as from July 1, 1926. The price, at which they were to be ceded, was not at first fixed: it was not to be decided until such time as the Reich should issue a long term internal loan; it was then to be calculated in relation to the charge actually borne by the Reich for the loan, up to a maximum rate of 8 per cent. In a more recent agreement it was decided not to await the conclusion of a loan by the Reich, but to adopt the terms of the issue now being made by the Railway Company, which will be discussed below. The cession price was thus definitively fixed at a figure approximating to the issue price of the Railway Company, and the shares were ultimately ceded to the Reich at a price of 100 millions for 107 million gold marks of shares, which represents a price of 93.46.

These 38 millions and 100 millions were not sufficient to cover the constructional expenditure. Moreover, it was impossible to continue in 1926, as had been done in the preceding year, to cover capital expenditure from operating receipts, an irregular practice which meant overburdening the operating account and also meant that such capital expenditure took precedence over reparation payments.

In the meantime, a definite improvement has become apparent on the money market: the discount rate of the Reichsbank, which on January 1, 1926, was still 9 per cent, was reduced on January 12 to 8 per cent, on March 27 to 7 per cent and on June 7 to 6.5 per cent. Mortgage investments could be made at 8 per cent instead of 10 per cent, and several important loans have been successfully issued on the home market, for example the 8 per cent communal loan for 40 million marks of the Deutsche Girozentrale repayable in 21 years, and two loans for 70 millions and 40 millions in 6.5 per cent Treasury bonds, repayable on October 1, 1930, which have been issued by the Postal Service of the Reich and the State of Prussia respectively.

In view of this improvement in the situation, the Railway Company has decided to issue on the home market a block of preference shares of 150 million gold marks. In order to facilitate the issue, it has thought it necessary to obtain the guarantee of the Reich for the preferential dividends, which incidentally makes it possible for holders of the shares to borrow on them at the Reichsbank and to use them for the investment of trustee funds (*Mündelsicherheit*).

The Company has dealt with a consortium of important banks with the Reichsbank at the head. The latter, acting as trustee, will retain the shares and will deliver to the public certificates repre-

senting 2, 5, 10 or 100 shares and carrying with them all the rights attached to the shares except the right of voting, which will be exercised by the President of the Court of Audit (Rechnungshof) of the Reich.

It will be recalled that for each block of 500 million marks issued the shareholders have the right to elect an administrator, who takes the place of one of the administrators originally appointed by the Government. The reservation with regard to the right of voting on the certificates now being issued is made with a view to overcoming the fear felt in some quarters that the shares, and with them an influence on the direction of the Company, might pass into the hands of foreigners. It should be noted that each holder will have the right to exchange his certificate for an original share carrying a right to vote, but that only the certificates will be negotiable on the Bourse.

The price of issue to the public has been fixed at 95.5. The shareholders are entitled to a preferential dividend of 7 per cent and also to a supplementary dividend in the event of the payment of a dividend on the ordinary shares held by the Reich. In conformity with the Law and the Statutes of the Company the preference shares are to be entirely redeemed and the preferential dividends paid off in full before the end of the concession. In the event of repayment before the expiration of the 25th year of the concession, the redemption rate will be 20 per cent. above par; from the 26th year to the 35th year it will be 10 per cent above par; after the 35th year redemption will take place at par.

Under these conditions the preference shares constitute a highly advantageous investment and from the first day of the issue (June 10, 1926) subscriptions were plentifully received.

It should be noted that the Postal Service has bought shares for 27.5 millions as an investment for the funds of the Postal Cheque Office, and the Finance Ministry 21.5 millions in order to utilise its available funds. These administrations receive the certificates at the rate of issue granted to the consortium of banks and have bound themselves to retain them for one year. The 101 millions constituting the remainder of the issue have been offered by the consortium to the general public; a considerable part is said to have been subscribed for the account of foreigners.

As counterpart to its dividend guarantee the Reich imposed conditions which may be summarised as follows:

If the guarantee actually comes into play, the Reich may ask the Court of Audit (Rechnungshof) to verify the books of the Company in order to decide whether recourse to the guarantee might have been avoided by administration on more commercial lines, and to consider the means whereby further appeal to the guarantee may be avoided.

If the Reich has had to pay a dividend in the place of the Company, it shall subsequently be entitled to repayment by the Company under the terms of § 25 paragraph 4 of the Statutes. In addition the Reich will receive interest on the sums which it has paid at the discount rate of the Reichsbank; this interest will be paid by the Company and will rank immediately after the service of Reparation bonds.

Finally, in the interests of the money market, the Company has undertaken to negotiate only with the German consortium of banks for any new issues to be made up to the end of 1927.

After the sale of the first three series of shares to the Reich, which amount to 500, 124 and 107 millions, and after the present issue of 150 millions, the Company has still at its disposal preference shares for 1,119 millions, which it may realise progressively in order to procure the necessary resources for its capital expenditure in the years to come.

Financial results of the operation of the Railway.

Under § 30 of the Railway Law, the Railway Company has to publish its Balance Sheet and Profit and Loss Account within six months from the end of each financial year. The first financial year was by exception 15 months and ended, as we have said, on December 31, 1925. The accounts were accordingly published in June 1926.

The accounts were carefully established after verification by the Hauptprüfungsamt (Chief Audit Office) a control organisation which has been created by the Company and, being under the immediate orders of the Director General, is entirely independent of the services whose accounts it has to check. A committee was specially chosen by the Managing Board to examine the accounts in collaboration with two highly competent experts, Professor Schmalenbach and Herr Otto Meyer, Director of the Deutsche Revisions- und Treuhand-Aktien-Gesellschaft.

Annexed to the present Report are the accounts which were approved by the Managing Board at its meeting of June 3, 1926:

Closing balance-sheet of the Deutsche Reichsbahn (September 30, 1924),

Opening balance-sheet of the German Railway Company (Deutsche Reichsbahn-Gesellschaft), as at October 1, 1924,

Operating Account for the business year 1925,

Profit and Loss account for the business year 1925,

Balance-sheet as at December 31, 1925.

Operating Account for the business year 1925.

Examination of the Operating Account shows a figure for receipts (5,669 millions) which is satisfactory. To this must be added moreover receipts to the amount of 21 millions from international traffic, which are not yet included in the total account for receipts but appear under the assets of the balance-sheet, as the first heading under the item "Claims" (deferred assets).

During the course of the business year the payments to staff increased by 270 millions per annum as a result of a series of increases granted to the staff owing to the high cost of living.

The payments for material were considerably augmented for the following reasons :

1. The Company has written off large sums from the value of the stocks of supplies, constructional material, coal, timber, iron etc.: in the opening balance-sheet of October 1, 1924, these were estimated at 631 millions, but since that date a strict

inventory has been taken from the point of view of quantity and quality, and for the balance-sheet as at December 31, 1925, the estimates were based on new prices; this was done in accordance with the rule laid down in Article 261 of the German Commercial Code, which prescribes that for each object the purchase price and the day's value must be compared and the lower value taken. In addition to this very cautious estimate, further sums were written off in anticipation of a possible fall in the value of certain materials. All these rectifications and all the sums written off were charged to the 1925 Operating account in addition to certain sums written off the items "Claims" and "Holdings in other undertakings".

2. To the payments for material of the Operating account certain exceptional expenditure was likewise added which constitutes in fact a contribution from the Operating account to the capital account. The official report of the Managing Board for the business year 1925 shows that the Company has fulfilled the obligations imposed upon it by § 9 of the Law¹), relating to the upkeep and development of the installations and material of the Railway. For renewals and extension of material and installations alone (improvements, enlargements and new installations) the Company has expended a sum of 998 million marks, not including payments for the ordinary upkeep of the Railway.

Nevertheless, the balance-sheet as at December 31, 1925, only shows a sum of 239 millions as expenditure for the extension of the railway system on capital account. The remainder of the 998 millions (759 millions) entered in the Operating account thus includes on the one hand payments for renewals normally included in the account, and on the other hand non-recurrent payments for extensions or improvements which should regularly have been borne by the Capital account and covered by means of extraordinary resources.

The above considerations explain the differences which may be noted between the previous Report of the Commissioner and the present balance-sheet: the Report, which describes the position as at August 31, 1925, that is, after eleven months of the business year, gave the extraordinary expenditure as 268,016,000 marks, whereas the balance sheet (business year of 15 months) gives only 239 millions. On the other hand, the operating expenses in respect of maintenance and renewal of permanent way and structures shown in the balance sheet have risen from 284,603,000 marks (see previous Report) to 606,914,000 marks.

¹ § 9 paragraph 1 of the Railway Law reads as follows: "The Company shall assume responsibility for the safe operation of the Railways of the Reich and for such adequate maintenance and development at its own expense of the undertaking, with all its accessories, as will meet the requirements of traffic and the progress in railway technique."

Profit and Loss Account.

The surplus of the Operating Account is 818 millions, representing a working coefficient (ratio of operating expenditure to operating income) of 85.56. This surplus has been appropriated as follows:

Reparation payments	399 millions,
Legal reserve (2 per cent of receipts)	113 ,
Preferential dividend on the shares ceded to the Reich	3 ,
Reserve for writing off concession and against risk of loss	150 ,
Carried forward to next balance-sheet	153 ,
	818 millions.

To sum up, the surplus of Operating receipts over Operating payments has made it possible for the Railway Company, after paying 399 millions for Reparation bonds, constituting the legal reserve and a supplementary reserve for writing off the concession, and after placing to reserve the dividend already due on the preference shares, to retain a net surplus of 153 millions which is carried forward to the business year 1926. These are encouraging results to which we shall return later. These 153 millions are also in conformity with one of the provisions of the Plan (§ F of the Report of the Organising Committee) which stipulated that the Company should set aside 130 millions from the profits of the first reparation year in preparation for the payments of the second year. At the end of the 1925 business year, it was therefore necessary to have in hand 8/12ths of 130 millions, or about 88 millions.

It is interesting to note that the total for cash in hand and credit balances with banks (488 million marks) corresponds closely to the total sum placed to reserve and carried forward to the next balance-sheet, that is, 150 millions to the reserve for writing off Concession and against risk of loss, plus 113 millions placed to the legal reserve and 153 millions carried forward to the next balance-sheet. The liquidity of the balance-sheet is thus satisfactory.

Balance-sheets.

Annex No. I gives the closing balance-sheet of the Deutsche Reichsbahn, an autonomous administration created by the Reich on February 12, 1924, and replaced in October 1924 by the German Railway Company (Deutsche Reichsbahn-Gesellschaft). The balance-sheet shows assets to the amount of 867 millions (supplies, cash in hand, credit balances with banks, sundry claims) and outstanding liabilities to the amount of 111 millions (claims of the Finance Ministry of the Reich, bills of exchange, sundry debts). The Deutsche Reichsbahn thus left net assets amounting to 756 millions.

The opening balance-sheet of the German Railway Company (Annex No. II) reproduces the component parts of the previous balance-sheet including the net assets of 756 millions which appear as "Working reserve"; it also contains new entries resulting from the coming into force of the Railway Law. We thus find on the liabilities side ordinary shares for 13 milliards, preference shares

for 2 milliards and reparation bonds for 11 milliards created by the Law, or a total of 26 milliards. On the assets side there appears, as counterpart to the ordinary shares, the Reparation bonds and the preference shares for 500 millions the proceeds of which go to the Reich, an item of 24.5 milliards entitled "Concession" which represents in fact the usufructuary value of the Railway system conceded to the Company. There then appears an item of 1.5 milliards representing the preference shares to be issued on behalf of the Company.

To simplify the accounts, the opening balance-sheet was made out as at October 1, 1924, instead of October 11, 1924, the exact date on which the Company was created. It was approved on October 7, 1925 by the Government of the Reich, subject to such alterations as might be demanded by the Court of Audit.

Turning to the balance-sheet as at December 31, 1925, we find that the first item on the assets side (24½ milliards for the Concession) reproduces the first item in the opening balance-sheet.

The Concession in respect of increases of plant (239 millions) only represents, as has already been said, part of the expenditure on plant for the business year 1925; the remainder of this expenditure has been incorporated in the Operating account.

The items "Cash in hand" and "Credit balances with Banks" appear in the balance-sheet at 488 millions, as against 163 millions in the opening balance-sheet. A very large part of these sums are with the Deutsche Verkehrs-Kredit-Bank.

This Bank, 75 per cent of whose shares are held by the Railway Company, is not an ordinary bank. Its activities are confined in the main to credit transactions in connection with transport costs and in particular it handles the available funds of the Company, which have to be employed in short term investments of the first reliability.

It works under the direction of the Company which is represented on the Board of Control of the Bank by five administrators and three officials.

The only holdings of the Company in other undertakings shown in the balance sheet are those acquired since the creation of the Company. The holdings acquired by the Reich before October 1, 1924, and ceded on that date to the Company, are not owned by the Company. Consequently the right of administration enjoyed by the Company forms part of the Concession of 24½ milliards. Two of the principal holdings are in the Mitropa (Mitteleuropäische Schlafwagen- und Speisewagen A. G.) and the Transkontinent A. G., which itself holds 40 per cent of the capital of the Mitropa. The other holdings are in the Verkehrs Kredit-Bank and in various undertakings for land or water transport, or for the production of electric power.

In connection with the liabilities of the balance sheet, it should be noted that no amortisation of the preference shares or reparation bonds has yet taken place. Under the Law and the Statutes such amortisation has to begin from the fourth year in the case of the reparation bonds; for the redemption of the preference shares provision is made for the constitution of a special reserve from 1935.

Nevertheless the experts who collaborated in the establishment of the balance sheet thought it advisable to make preparation for the amortisation at once. For this purpose a reserve of 150 millions was taken from the profits of the Profit and Loss Account and entered among the liabilities of the balance-sheet. This reserve, which is entitled "Reserve for writing off Concession and against risk of loss", has also the object of covering possible deficits.

Conclusions on the financial situation.

The conclusions to be drawn from the accounts submitted by the Railway Company for its first business year seem to us to be satisfactory. The surplus of operating receipts over operating payments is 818 millions, corresponding to a working coefficient of 85.56. Nevertheless, the expenditure was exceptionally increased by the very cautious writing down of the supplies received from the State Administration, by a contribution to the expenditure on capital account and by the work required in order to cover arrears in the work of upkeep dating from the war and post-war periods. It is thus natural to think that in a normal year, when these exceptional charges do not occur and traffic is good, the Railway Company will be able to obtain a working coefficient of approximately 80 per cent.

It is interesting to recall that the Experts of the Dawes Plan in their Report expressed the view that the Railway Company could fairly rapidly obtain this coefficient. They then estimated the gross receipts at 4 milliards for a year of twelve months and the gross profits at 20 per cent of the receipts, or approximately 800 millions; as a matter of fact the receipts were 5,669 millions for the first business year of fifteen months, that is, they exceeded the estimates made in the Plan, and the gross receipts were 818 millions.

The results obtained by the Railway Company are thus satisfactory; and they do not seem abnormal if it is remembered that before the war the working coefficient of the German railways was 70 per cent and that during 1925 the coefficient was 74.1 for the main American lines, 79.2 for the French Paris-Lyons-Méditerranée line and 83.3 for the British railways (in spite of the coal crisis).

Following a different line of argument, if we compare the operating surplus in 1925 with the capital invested in the Railway, we obtain the following figures:

	Invested Capital	Operating surplus	Percentage of invested capital
German Railway	Marks 24,500,000,000	694,000,000	2.83
British Railways	£ 965,299,975	32,144,828	3.30
American Railways ...	\$ 23,539,823,000	1,136,973,477	4.83

This comparison shows that the income now derived from the German Railway is very considerably less than that produced by the Railways in Great Britain and in the United States. The

figure of 694 millions indicated in the above table as the operating surplus for the German Railway was obtained by taking that part of the total surplus of 818 millions which applies to the twelve months of the year 1925.

First results of the business year 1926.

The beginning of the business year 1926 is less favourable than might have been hoped from the happy results of the business year 1925.

The traffic in goods, which had developed in a satisfactory manner until the autumn of 1925, has since undergone a heavy depression, as the result of the severe economic crisis prevailing in Germany. As from December 1925 the receipts obtained have been less than those for the corresponding months of the previous year; the depression has continued in 1926 but would appear to have reached its height in January 1926 so that the situation now seems to be improving; from May 1926 indeed the traffic in goods has again almost equalled the traffic for May 1925. Passenger traffic has also been much reduced and this is apparent in the receipts in spite of the increase in railway rates brought into force on May 1, 1925. There is no sign in May 1926 that the depression in passenger traffic is about to decrease. More detailed information will be given below with regard to the development of passenger and goods traffic.

We give below in millions of marks the average gross receipts per working day of the first five months of 1925 and 1926:

	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>	<i>May</i>
1925	14	14.95	15.25	16.84	16.03
1926	13.3	13.28	13.61	15.17	15.69

The total net receipts (minus the Transport Tax) for the first four months of 1926 amount to 1260 millions, as against 1417 millions for the corresponding period of 1925, representing a reduction of 157 millions or more than 11 per cent. Although the situation is improving, decreased returns are still to be feared and a reduction of this kind in receipts obviously necessitates a very careful policy on the part of the Company.

The Railway Company, desiring to avoid any increase in railway rates for as long as possible, has endeavoured to reduce its expenditure, as is natural in the face of such a considerable reduction in traffic. On the other hand the operating account for the business year 1926 will not have to bear the exceptional charges of the previous business year for writing down supplies and for expenditure on capital account which will have to be covered by the proceeds from the sale of preference shares. Under these circumstances there is reason to think that with a cautious policy in the matter of railway rates the Company will unless it has to meet new and unexpected charges carry out all its obligations.

Expenditure on staff.

In our previous report we explained in some detail the position of the Railway personnel and in particular the conditions under which the reduction in staff (*Abbau*) was carried out, which was

necessary in order to reduce the personnel to reasonable proportions after the enormous increase which had taken place during and after the war.

We have nothing to add to those statements, except that according to the Annual Report of the Railway Company the average number of employees in 1925 was 732,961, including 331,712 officials and 401,249 workmen.

In 1913 the personnel within the present frontiers numbered 692,714, including 263,887 officials and 428,827 workmen.

In March 1926 the personnel totalled 693,031, 323,823 being officials and 369,208 workmen.

In regard to the surplus personnel resulting from war and post war conditions, the reduction may now be considered as completed except in the workshops. It will be recalled that the saving realised on wages has been considerably reduced by the additional charges in respect of pensions and retaining pay for the dismissed personnel.

We have already pointed out from the annual Report of the Company that the charges in respect of expenditure on staff increased during the course of the last financial year by about 270 millions owing to measures outside the influence of the Company. A difficulty arose in December 1925 on the occasion of a further demand by the workmen for an increase in wages. As the Company refused the increase, the workmen appealed for arbitration to the Minister of Labour, who, on December 29, 1925, granted them an increase of from 1 to 2 pfennigs per hour according to the grade to which they belonged. The increase in expenditure resulting from this arbitral award, which the Ministry of Labour on January 16, 1926, declared to be binding on both parties, was from 16 to 20 million marks per annum. The Company asked the Transport Minister of the Reich, whose approval is necessary under the Railway Law, for permission to increase certain rates to the extent required in order to cover the additional expenditure. The Minister replied that under the circumstances prevailing he did not think it possible to approve an application of the kind. The Managing Board of the Company then considered that it was unable to agree to further expenditure without revenue in compensation, and decided to appeal to the special arbitral tribunal for which provision is made in Article 44 of the Railway Law for the event of disputes between the Government and the Company. It thought it indispensable to obtain a legal decision as to whether an arbitral award declared binding in regard to wages is compatible with the provisions of the Railway Law, according to which the establishment of wages is reserved for the Managing Board and the Management of the Company.

The Government of the Reich for its part argued that compulsory arbitration is legitimate and serves a useful purpose: arbitration reduces the danger of strikes and the railwaymen cannot be deprived of advantages which the legislation on labour grants to the working-class as a whole.

The Leipzig Tribunal has just decided, under date of June 9, 1926, that compulsory arbitration is not in contradiction to the Railway Law and the Statutes of the Company; the reasons for the judgment are not yet published.

Arbitral decision in regard to taxation.

A Law of the Reich of August 10, 1925, on the rights of taxation of the Reich, the Federal States and the communes subjected the Railway to new charges for the benefit of the Communes. The Company took the view that these charges conflicted with Article 14 of the Railway Law, under which the Company is exempt from any new tax of the Reich, the States or the Communes, to which the "Deutsche Reichsbahn" was not subject on February 12, 1924. The Company accordingly appealed to the special arbitral tribunal, to which reference has been made, with the claim to be exempted from the operation of the Law of August 10, 1925.

The arbitral tribunal on March 13, 1926 decided that the Company, being exempt under Article 14 of the Railway Law from any new direct tax, could not be subjected to the charges imposed by the Law of August 10, 1925. At the same time the tribunal declined to pronounce that the Law of August 10, 1925 was not applicable to the Company. It decided that it had not received such extended powers under Article 44 of the Railway Law. It concluded that it must confine itself to placing on record the decision indicated, leaving it to the Government of the Reich to decide in what manner the decision should be applied.

**Position in regard to traffic and movements
of Tariffs.**

1. Passengers.

The figures of the returns for the year 1925 are now known, and we have reproduced in Annexes VI to IX representative graphs together with the principal figures of the receipts and of the passenger and goods traffic of the year, compared with the years 1913 and 1924.

The following are the comparative figures of the passenger traffic in 1925 and 1924:

	1925 (in thousands)	1924 (in thousands)	increase over 1924
Passengers transported..	2,106,278	1,906,769	+ 10.5 %,
Passenger kilometers ...	48,950,273	43,381,402	+ 12.8 %,
Mean distance of transport in kilometers	23.24	22.75	+ 2 %.

The 1924 returns were naturally influenced by the separation of the Ruhr and Rhineland systems, which in length represent some 10 per cent of the whole mileage of the German railways. If this consideration is taken into account, it appears from the above figures that the passenger traffic has gradually returned to stable conditions since the introduction of the gold mark. It is still a

long way off the 1922 figures (73.962 millions of passenger kilometers), but the situation in 1922 was exceptional, and the result of excessively low rates. The introduction of gold tariffs and the impoverishment of the middle class as a result of the collapse of the mark have put an end to the passion for travel which the inflation had stimulated. If on the other hand the 1925 returns are compared with those of 1913 (allowing for the losses of territory as a result of the war), an increase of 33.6 per cent in the number of passengers transported and an increase of 33.7 per cent in the number of passenger kilometers will be observed. The mean distance of transport has remained nearly the same, viz. 23.24 kilometers in 1925 as against 23.21 kilometers in 1913.

If the movement of the passenger receipts (see Annex VIII) is studied, it will be found that the satisfactory development of the three first quarters of the year 1925, in particular during the summer months, has been followed by a marked decline in the figures. The decline is far larger than is normally found in the winter: as compared with the corresponding months in 1925, the decline in 1926 was some 4.3 per cent in January, 8.7 per cent in February and 7.9 per cent in April. In March, it is true, there was an increase of 4.6 per cent; but the improvement was not continued in April. The passenger transport during the Easter holiday was comparatively small, and the same was the case at Whitsuntide.

These decreases in the returns for the first four months of 1926, in comparison with the corresponding months of 1925, took place in spite of the additions to the season ticket rates which were made on April 1, 1925, and in spite of the 10 per cent increases in the normal rates which were made on May 1, 1925. It follows that the passenger traffic fell off in 1926 even more than the figures of the receipts show.

As regards the distribution of the passenger traffic in 1925, it is found that the movement from the more expensive to the cheaper classes, which was already a marked feature in preceding years, shows a further development. The number of passengers per class was as follows in percentages of the total:

	1925	1924
1st class	0.04 %	0.03 %
2nd class	5.31 %	6.84 %
3rd class	32.81 %	37.00 %
4th class	61.84 %	56.13 %

This movement towards the cheaper classes, which from the point of view of the receipts is so unsatisfactory, is due to the impoverishment of a large proportion of the population since the war and to the more extended use of the fourth class. It must be remembered that before the war there was no fourth class on certain of the German railway systems: to-day on the other hand there are through trains over long distances, for example the line from Berlin to Munich, which carry fourth class cars. (The percentage of passenger kilometers at reduced prices has slightly diminished in 1925 in relation to the total. It was 36.26 per cent in 1925 as against 37.52 per cent in 1924: the slight decrease is probably due to the increase in season tickets on April 1, 1925.)

Position of the passenger tariffs. We have indicated in the last Report the development of the passenger tariffs since the introduction of the gold mark. Since the last increase in the normal tariffs on May 1, 1925, the rates have not been modified, except for certain special reductions designed to increase traffic in particular cases. The receipts per passenger kilometer in 1925 totalled 2.82 pf.: including baggage, they amount to 2.92 pf. These figures represent an increase of 18.2 per cent over 1913.

Slightly increased receipts per passenger kilometer are anticipated for 1926, since the increases in rates to which reference has been made will not have their full effect until this year. Thus for the period September-December 1925 the receipts per passenger kilometer were 2.91 pf., or 3.03 pf. including baggage, which represents an increase of 22.6 per cent. over 1913. Including tax, the price per passenger kilometer for all traffic (traffic at reduced rates and traffic at normal rates) is 30 to 33 per cent. higher than in 1913. As compared with this increase it may be noted that the Statistical Office of the Reich computes the index of the cost of living in the month of April at 139.6, as compared with 100 in 1913.

II. Goods.

The year 1925 is the first normal working year of the Railway since the war. In spite of the economic difficulties attendant on the stabilisation of the mark, the traffic developed favourably during the year. It was almost as large as in 1913. The figures are as follows, in comparison with 1924:

	1925 (in thousands)	1924	increase over 1924
Tons transported	373.009	278.800	+ 33.8 %
Ton-kilometres	55,965.000	43,427.000	+ 28.8 %
Mean distance of trans- portation in kilometres.	150.04	156.00	+ 3.8 %

Even making allowance for the fact that the system of the Ruhr and Rhineland was separated from the rest of the German system until November 1924, the traffic results for 1925 show an increase over 1924. If on the other hand the traffic figures of 1913 for a system corresponding to the present system are compared with the 1925 figures, it will be found that there is a falling off in the tonnage of 6.7 per cent, although the number of ton-kilometres has increased by 8.8 per cent. The latter result is due to the fact that the average distance travelled by the ton transported, though rather less in 1925 than in 1924, was 16 per cent more in 1925 than the average in 1913.

The transport of coal from the producing centres and from the sea-ports or river-ports in 1925 was 157,706.579 tons altogether, of which total 139,734.334 tons were for commercial requirements, 5,913.417 tons for Reparations, and 12,058.828 tons for the Company's service. 33.4 per cent of the coal transported was lignite.

The total transports for the Company's service, including coal, were 35,685,423 tons.

The goods traffic figures, which were very satisfactory down to the fall of 1925, began to decline towards the end of the year. The falling off, which is normal in the winter time, was accentuated this year by the economic crisis prevailing. As a result the returns from December on were lower than in the corresponding months of the previous year. The following are the monthly figures:

	Tons transported		Decrease in 1924/25 as compared with 1924/25 %	Ton kilometres		Decrease in 1925/26 as compared with 1924/25 %
	1925/26 (in thousands)	1924/25		1925/26 (in thousands)	1924/25	
1925						
December	27,611	29,587	6.7	4,198	4,598	8.7
1926						
January	24,809	30,642	19.0	3,796	4,781	20.6
February	25,357	29,717	14.6	3,905	4,682	16.5
March	28,721	32,181	10.7	4,423	4,882	9.4

It will be seen from these figures that the transportation crisis reached its culminating point in the month of January 1926. From that time on there is a slight improvement. The same tendency is apparent in certain other indications of the economic recovery of the country, such as the decrease of unemployment. The goods traffic receipts for the month of April were 9.8 per cent lower than those of the corresponding month in 1925, but the figures for March had been 11.9 per cent lower. The recent improvement in the traffic figures is shown also by the comparison of the number of cars loaded per working day in 1926 and in 1925:

	1926	1925
January	105,848	111,249
February	112,237	118,488
March	116,809	120,683
April	120,231	122,626.

The number of cars loaded in the first few weeks of May was greater than in the corresponding weeks of 1925; but this, it must be said, is due in part to the increase in transports of German coal as a result of the strike of the English miners.

In comparing the 1926 traffic with that of 1925 allowance must be made for the fact that the development of traffic in the first half of 1925 was exceptionally satisfactory by reason of the relief to the economic situation in consequence of the end of the occupation of the Ruhr and the Dawes Loan. After this transitional period traffic is now tending to revert to stable conditions, and it is probable that in 1926 the total goods traffic will be less than the 56 milliards tonkilometres of 1925.

Position of the goods traffic. In our last Report we gave an account of the development of the goods traffic down to the month of October 1925. Since then the normal tariffs have undergone no change, but reductions of the special tariffs have been accorded.

The tonnage transported under the special tariff rates shows a progressive increase: it was 58.06 per cent of the total tonnage transported in February 1925, and 65.65 per cent of the total transported in February 1926.

The 10 per cent additional reduction accorded to the transport of food stuffs on October 1, 1925, which expired on December 31, has been twice extended at the instance of the Government of the Reich. It expires now on June 30, 1926. Further reductions have been granted in the case of potatoes (including potatoes for industrial purposes or for export), for salted fish, and for cereals from East Prussia. To assist the exports of coal, a new special tariff has been introduced for transports of coal from the Ruhr to the transit-stations on the German-Dutch frontier. This new tariff gives a reduction on the general tariff, which varies between 3 and 29 per cent according to the amount of tons delivered to the Company.

New reduced tariffs for trans-shipment have been introduced for the ports of the Rhine, the Main, the Oder and the Weser, and specially for the Danubian ports. The Company however has not been able to satisfy all the demands received owing to the high losses in the receipts as a result of the substitution for long distance transport of short distance transport terminating at a river port. It is clear that the Company cannot thus forego an important part of its traffic for the benefit of waterway undertakings operating at much lower cost.

Almost all the rates for the sea-ports were lowered during the period January-September 1925 for reasons which were indicated in our last Report. Since that time the Company has continued actively its rate policy in aid of the ports. New special tariffs have been granted for the export of cellulose, wood-pulp, raw aluminium, alcohol, cotton tissues, kaoline, potash alum etc. Further there has been an additional reduction of the rates of some of the existing tariffs, and the list of commodities to which they apply has been extended. This tariff policy tends to attract to the German ports, not only the German import and export trade, but also the trade of neighbouring countries. For example, the rates of the special tariff for transports between Switzerland and the German ports has been reduced several times to adapt it to the rates on the foreign lines to French and Belgian ports, the position in regard to which varies continually with the exchange.

For transport between the Czecho-Slovak and Austrian frontier stations and the German ports the Company allows in general the same rates as those prevailing on the foreign lines between these stations and the port of Trieste. In the hope of putting an end to this competition of tariffs between the railways of the various countries, conferences have recently taken place between the Company and the foreign lines interested with a view to dividing the traffic of Czecho-Slovakia between the Italian and the German ports. Up to the present these discussions have not led to any result.

As a result of these various measures of tariff policy transport under the special tariffs to the ports has developed. During the period January to October 1925 an average figure of 450,000 tons per month was attained.

The transit traffic across the land frontiers has been assisted by the introduction of new special tariffs, by the reduction of existing tariffs, and by the establishment of rapid and direct communication between frontier and frontier. The tonnage transported has increased considerably. From 40 000 tons in January it rose to 86 000 tons in October 1925.

With a view to stimulating international traffic, a direct tariff has been arranged with Austria, and negotiations for the establishment of direct tariffs with Italy, Czecho-Slovakia and Hungary have been continued.

To sum up, in spite of the economic crisis which at the end of 1925 caused a marked falling off of receipts, the Company has continued its former tariff policy. It has endeavoured to assist the economic development of the country by granting reductions of rates, as indicated, while at the same time seeking to increase its traffic by competitive measures.

It is clear however that the present falling off in revenue must compel the Company to exercise the greatest possible prudence in the consideration of all requests for reduction of rates: such reductions can only be accorded, if the increase of traffic resulting is such as to compensate for the loss of revenue. If moreover any new burden were to be imposed on the Company, it would be compelled inevitably to increase its tariffs to counter-balance it; undesirable as such an increase would be in the general interest.

The mean price per ton-kilometre paid in 1925, including tax, was 43 per cent higher than that paid in 1913. This increase, which is somewhat less than that found in other countries with stabilised currencies, corresponds to the general increase of prices.

Position of the rolling stock.

We have nothing to add to the explanations given in our last Report with regard to the position in regard to the rolling stock of the Railway. According to the year's Report of the Company the rolling stock at the close of 1925 was as follows:

Steam locomotives	27,373
Electric locomotives	246
Motor locomotives	490
Internal combustion locomotives	1
Passenger cars	64,799
Baggage cars	21,838
Freight cars	671,452
comprising	
covered cars	229,187
open cars	434,902
service cars	7,363

The above rolling stock is more than enough to meet the requirements of traffic without any necessity for recourse to new orders, except in particular cases.

Last year there were every day on an average over 5000 locomotives and 60,000 cars in excess of requirements. This excess was increased by the falling off of traffic at the beginning of the year 1926.

(Signed) G. LEVERVE.

Annexes

Annex

Closing Balance of the

As at Sep-

Assets	gold marks	gold marks
Working supplies		631,595,828.80
Claims:		
On the uniforms fund.....	1,512,475.06	
On the workers' pensions fund.....	522,946.43	
On savings and loan offices	920,273.42	
In respect of services rendered for third parties and other advances ...	<u>69,674,476.42</u>	
Cash in hand and credit balances with banks.....		72,630,171.33
		162,828,164.46
		867,052,164.59

I.

Deutsche Reichsbahn.

tember 20, 1924.

Liabilities	gold marks	gold marks
Working capital.....		756,085,548.72
Bills of exchange		13,946,250.00
Claims of the Finance Minister of the Reich:		
On Rentenmark Loan	20,000,000.00	
On redemption of Emergency currency (Notgeld).....	25,000,000.00	
On postponed payments of Transport Tax	40,000,000.00	85,000,000.00
Sundry debts:		
To foreign railway systems and Trans- port Tax.....	6,506,483.20	
To caution moneys (Pfandgelder).....	510,506.41	
To Suspense Accounts	1,481,583.93	
To Betriebskrankenkasse (Sick Insu- rance Fund)	2,450,769.98	
To Verbandskrankenkasse (Sick Insu- rance Fund)	557,183.14	
To Beamtenkassen (Officials' Funds)..	95,382.48	
To liabilities on operation of narrow gauge lines	412,872.69	
To Girls' Home.....	5,433.19	
To Boys' Home.....	150.85	12,020,365.87
		867,052,164.59

Annex

**Opening Balance-Sheet of the
As at Octo-**

Assets	reichsmarks	reichsmarks
Concession		24,500,000,000.00
Unissued Preference Shares, the proceeds of which go to the Railway Company ...		1,500,000,000.00
Working supplies		631,595,828.80
Claims of the Company:		
on the uniforms fund	1,512,475.06	
on the workers' pensions fund	522,946.43	
on Savings and Loan Offices	920,273.42	
in respect of services rendered for third parties and other advances ...	69,674,476.42	72,630,171.83
Cash in hand and credit balances with Banks		162,826,164.46
Total		26,867,052,164.59

Gold mark amounts are entered

Berlin, December 22, 1925.

The German

**Chairman of the Managing Board.
C. F. v. Siemens.**

II.

German Railway Company.

ber 1, 1924.

Liabilities	reichsmarks	reichsmarks
Ordinary Shares		13,000,000,000.00
Preference Shares:		
a) the proceeds of which the Finance Minister of the Reich is entitled to claim.....		500,000,000.00
b) the proceeds of which go to the German Railway Company, still unissued.....		1,500,000,000.00
Reparation Bonds	11,000,000,000.00	
Working Reserve ¹	756,085,548.72	
Sundry Debts:		
Bills of Exchange		13,946,250.00
Claims of the Finance Minister of the Reich on Rentenmark loan	20,000,000.00	
on redemption of emergency currency (Notgeld).....	25,000,000.00	
on postponed payments of Transport Tax.....	40,000,000.00	85,000,000.00
To other undertakings and Transport Tax payments out of traffic receipts..	6,506,483.20	
To caution moneys (Pfandgelder).....	510,506.41	
To Suspense accounts.....	1,481,583.93	
To Betriebskrankenkasse (Sick Insurance Fund).....	2,450,769.98	
To Verbandskrankenkasse (Sick Insurance Fund).....	557,183.14	
To Beamtenkassen (Officials Funds)	95,382.48	
To liabilities on operation of narrow-gauge lines	412,872.69	
To Girls Home	5,433.19	
To Boys Home	150.85	12,020,365.87
Total		26,867,052,164.59

at the rate 1 GM = 1 RM.

Railway Company.

The General Manager.
Oeser.

¹ These are the net assets ceded to the Company by the „Deutsche Reichsbahn“ (see the latter's Closing Balance Sheet in Annex I).

Annex III.

**Operating Account of the German Railway
Company for the business year 1925.**

Operating Receipts		reichsmarks
Passenger Traffic		1,710,992,983.84
Goods Traffic		3,536,888,629.76
Other receipts		420,800,905.78
Total		5,668,682,519.38
Operating Payments		
a) Payments to Staff		
Salaries of officials		1,300,577,030.35
Wages of employees and workmen of traffic department		430,427,574.26
Wages of permanent way workmen		172,901,844.87
Wages of workmen employed in the workshops		329,737,695.94
Pensions and retaining pay of officials, pensions of widows and orphans		493,513,438.02
Other payments		287,052,610.74
Total a) Payments to Staff		3,014,210,194.18
b) Payments for Material		
Various supplies and working material coal etc.		540,177,604.98
Maintenance and renewal of permanent way and structures		606,913,642.99
Maintenance and renewal of rolling stock and machinery		571,202,589.57
Other payments		117,415,338.34
Total b) Payments for Material		1,835,709,175.88
Total a) and b) Operating Payments		4,849,919,370.06
Giving a surplus of		818,763,149.32

Annex IV.

**Profit and loss Account of the German Railway
Company for the business year 1925.**

<i>De.</i>	reichsmarks	<i>Cr.</i>	reichsmarks
Service of Reparation Bonds	399,308,860.00	Working surplus	818,763,149.32
To special legal reserve	113,373,650.39		
To reserve for writing off concession and against risk of loss	150,000,000.00		
Net Profits:			
Preference dividends ...	2,965,666.67		
Carried forward to next year	<u>153,114.972.26</u>	156,080,638.93	
	<u>818,763,149.32</u>		<u>818,763,149.32</u>

Annex

**Balance Sheet of the Ger
as at Decem**

Assets	reichsmarks	reichsmarks
Concession in respect of the original railway property taken over		24,500,000,000.00
Concession in respect of increases of plant		239,007,602.02
Working supplies		485,364,453.64
Cash in hand		144,170,997.07
Credit balances with Banks		344,584,323.28
Claims:		
On traffic receipts adjustment account	20,798,170.57	
On delivery of preference shares to the Reich	38,000,000.00	
On insurance and welfare organisations	919,928.54	
Other claims	58,556,185.39	118,274,284.50
Holdings in other undertakings		6,500,000.00
		25,837,901,660.51

Gold mark amounts are entered

Berlin, June 3, 1926.

The German

**Chairman of the Managing Board:
C. F. v. Siemens.**

V.

man Railway Company
ber 31, 1925.

Liabilities	reichsmarks	reichsmarks
Ordinary shares		13,000,000,000.00
Preference shares		
a) the proceeds of which the Reich is entitled to claim		500,000,000.00
b) the proceeds of which go to the German Railway Company	1,500,000,000.00	
less those not yet issued ...	1,376,000,000.00	124,000,000.00
Reparation bonds		11,000,000,000.00
Legal reserve (Ausgleichsrücklage)		113,373,650.39
Working reserve (Betriebsrücklage)		756,085,548.72
Reserve for writing off Concession and against risk of loss		150,000,000.00
Sundry Debts:		
Caution moneys (Pfandgelder) and suspense accounts....	2,754,317.01	
Unpaid Transport Tax	25,868,885.82	
Insurance and welfare orga- nisation	5,717,448.96	
Other debts	4,021,670.68	38,861,822.47
Net Profit:		
Preference dividend	2,965,666.67	
Carried forward to next Ba- lance Sheet	153,114,972.26	156,080,638.93
		25,837,901,660.51

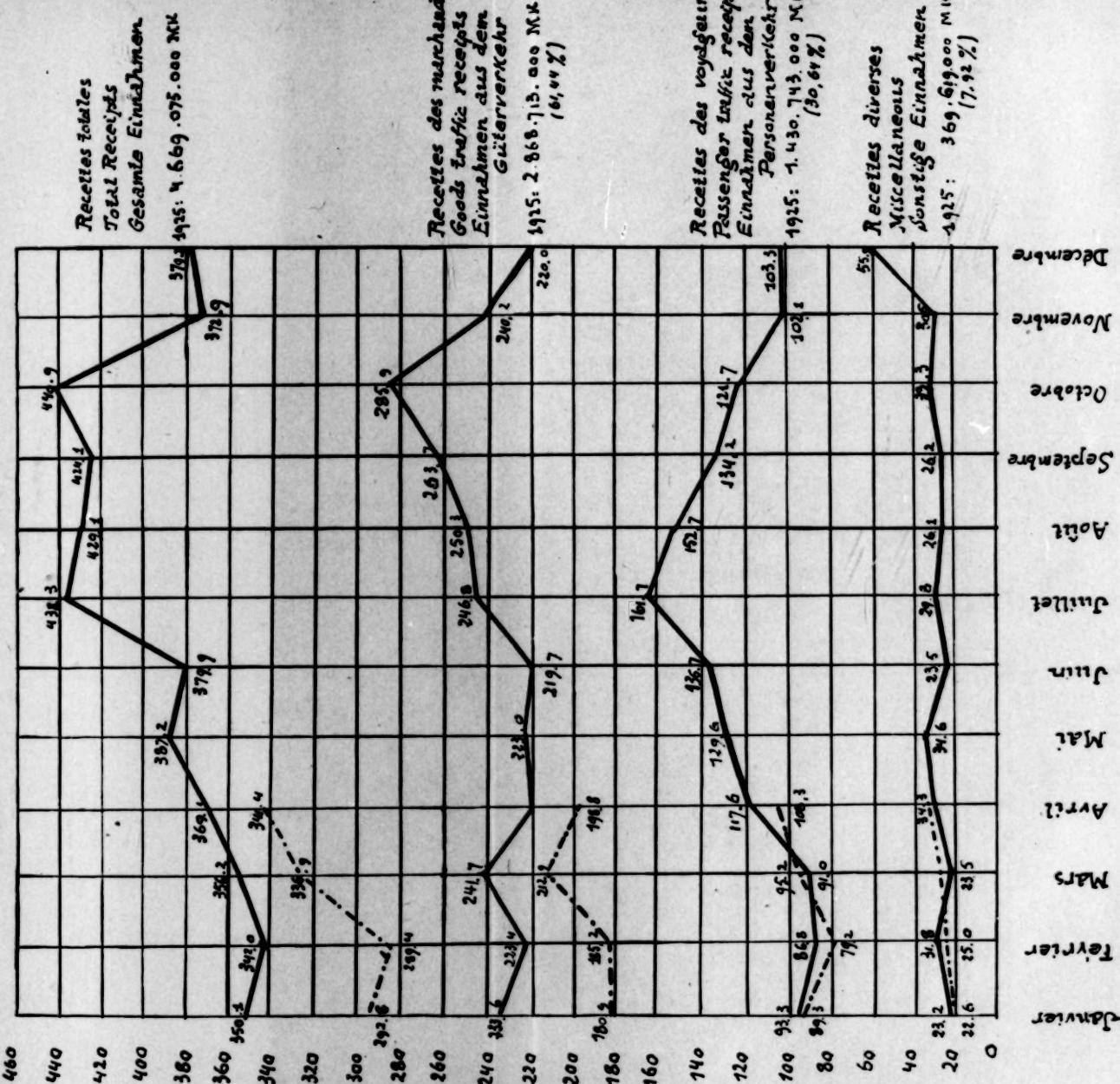
at the rate of 1 GM = 1 RM.

Railway Company.

For the General Manager:
Dorpmüller.

*German Railway receipts Recettes des Chemins de fer allemands
in 1925 and 1926 in millions en 1925 et 1926 en millions de mark.
of Marks.*

*Einnahmen der Deutschen Reichsbahn
in den Jahren 1925 und 1926 in
Millionen Mark*

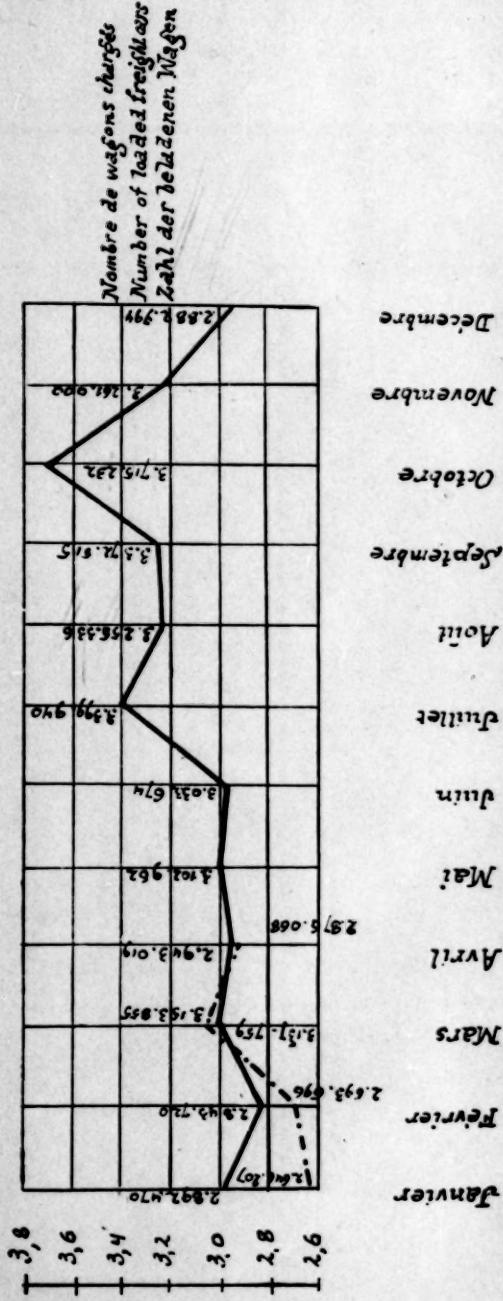
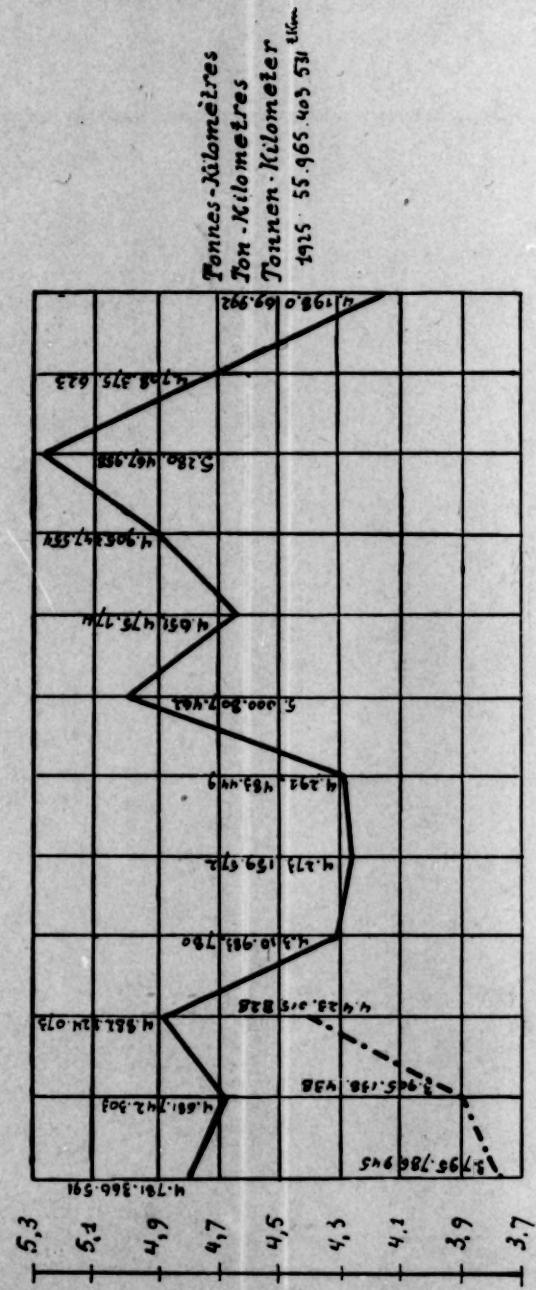
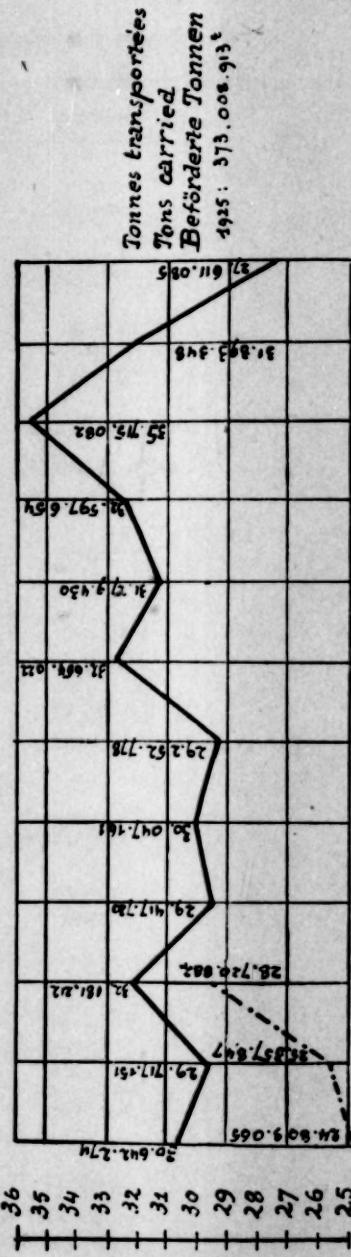


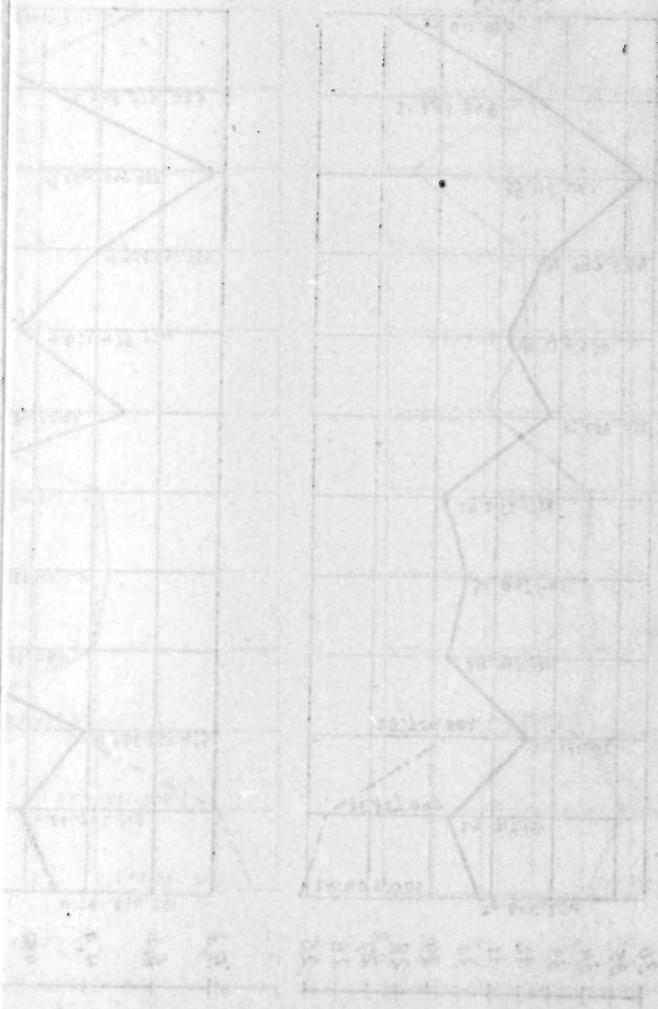
Pour 1925, résultats définitifs
For 1925, definitive results
Für das Jahr 1925, endgültige Ergebnisse

Pour 1926, résultats provisoires
For 1926, provisional results
Für das Jahr 1926, vorläufige Ergebnisse

Annexe VII
Annex VII
Anlage VII

Güterverkehr auf den Reichsbahnen in den Jahren 1925 und 1926.
Goods traffic on the German Railway in 1925 and 1926.





Annex VIII.

**Comparative Figures of Passenger Traffic
in 1913, 1924 and 1925.**

A. Passengers and Baggage.

	Receipts in thousands	Number of passengers in thousands	Passenger- kilometers in thousands	Mean receipt (with baggage) per passenger- kilometer in Pf.	Mean distance travelled in km.
1913 (without the ceded (territories)	904,000	1,576,900	36,599,000	2.47	23.21
1924	1,105,342	1,906,769	43,381,000	2.55	22.75
1925	1,430,743	2,106,278	48,950,000	2.92	23.24
Increase in 1925 over 1913	+ 58.2%	+ 33.6%	+ 33.7%	+ 18.2%	—

B. Passengers (without Baggage).

	Receipts	Per- centage of 1925 total	Per- centage of 1913 total	Number of passengers	Per- centage of 1925 total	Per- centage of 1913 total
				1st Class	2nd	3rd
1st Class	20,350,353	1.48	2.85	738,811	0.04	0.12
2nd	188,760,426	13.69	16.75	111,939,916	5.31	7.53
3rd	540,417,934	39.21	44.65	691,166,181	32.81	41.60
4th	628,762,596	45.62	35.75	1,302,433,067	61.84	50.75
Total of which fares at cheap rates accoun- ted for	1,378,291,309	100.00	100.00	2,106,277,975	100.00	100.00
	228,823,535	16.60	13.00	1,127,635,291	53.54	50.63

	Passenger- kilometers	Per- centage of 1925 total	Per- centage of 1913 total	Receipts per passenger- kilometer		Mean distance travelled	
				1925	1913	1925	1913
1st Class	190,217,199	0.39	0.91	10.70	9.79	257.46	164.63
2nd	3,539,282,372	7.23	9.89	5.33	4.35	31.62	29.94
3rd	16,788,096,988	34.30	42.19	3.22	2.84	24.29	22.95
4th	28,432,676,383	58.08	47.01	2.21	2.05	21.83	20.64
Total of which fares at cheap rates ac- counted for....	48,950,272,942	100.00	100.00	2.82	2.36	23.24	23.21
	17,749,654,832	36.20	24.10	1.29	1.28	15.74	11.05

The figures for 1913 which appear in this table do not include the railways in Alsace-Lorraine or military transportation.

Appendix IX.

Comparative Figures of Goods Traffic in 1913, 1924 and 1925.

	Tons transported in thousands	Ton-kilo- meters in millions	Mean distance travelled per ton in Km.	Receipts per ton-kilo- meter in Pf.	Total Receipts for goods carried in Mk.
1913 (without the ceded territories)	399,000	51,429	129.0	3.59	1,927,000
1924.....	278,800	43,427	156.0	5.35	2,408,294
1925.....	373,009	55,965	150.0	4.92	2,868,713
Increase or decrease in 1925 over 1913	- 6.7 %	+ 8.8 %	+ 16.3 %	+ 37.0 %	+ 48.9 %

Distribution of Goods Traffic in 1925.

Report of the Commissioner of Controlled Revenues.

September 1, 1925, to March 31, 1926.

I.

(1) For the purpose of this interim report there is a certain convenience in taking seven, rather than six, months of the second Reparation year, thus making the end of the period reviewed coincide with the termination of the German fiscal year. The yield of the controlled revenues in the seven months from September, 1925, till March, 1926, has been as follows:

	1925				1926			Total
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	
	In thousands of Reichsmarks							
Customs...	50,123	60,935	53,063	49,899	76,126	42,167	48,619	380,932
Tobacco...	62,970	16,221	59,135	68,966	50,893	45,602	50,504	354,291
Beer	24,140	20,903	19,791	14,936	20,069	18,128	18,007	135,974
Alcohol ...	10,964	18,578	13,229	18,037	15,873	13,932	19,269	104,882
Sugar	26,825	6,683	5,685	19,201	15,651	18,613	25,342	118,000
Total ...	175,022	118,320	150,903	171,039	178,612	138,442	161,741	1,094,079

The average monthly receipt has been in round figures 156 million marks, as compared with an average of 149 million marks in the preceding half year. Owing to various disturbing influences the yield in the period under review cannot be necessarily regarded as normal. The new Sugar Law, to which reference was made in my previous report, extended the period allowed for payment of the tax. It now falls due for payment 60 to 90 days after the release from warehouse, instead of 10 to 25 days thereafter. In consequence of this change the receipts from sugar for October and November were abnormally low and the yield of the financial year 1925-26 corresponds to tax payments for approximately 10½ months only. The change in the system of cigarette taxation, to which also reference was made in my previous report, introduces other exceptional factors. The change in rates was accompanied by an extension of one month in the period allowed for payment, with the result that the yield of the tobacco tax in the month of October last contained practically nothing but arrears. On the other hand, receipts in September, November, and December were swollen through forestalments in anticipation of the entry into force of the new taxation, while the succeeding months show a correspondingly low return, which represents the inactivity of the factories and their utilisation of stocks in the first months of the new tax system. Finally, the receipts from Customs, which average 54,419,000 marks a month as against 37,767,000 marks a month in the first year of the Plan, were considerably enhanced during the months from October, 1925, to

January, 1926, by payment of duty in respect of importations effected in the preceding months in anticipation of the coming into force of the higher rates prescribed by the new Customs Law.

It may be noted that in the seven months under review the tax on alcohol brought in 104,882,000 marks, or a monthly average of 14,983,000 marks, which compares with a monthly average of 16,602,000 marks for the corresponding months a year earlier. A more detailed reference to the unsatisfactory nature of this return will be found below.

(2) The following table gives the estimated and the actual yield for each of the controlled revenues in the German financial year 1925-26, which concluded on the 31st March last:

	Estimate 1925-26	Revenue 1925-26 ¹
	In thousands of Reichsmarks	
	Total	1,735,000 1,854,699 ²
Customs.....	500,000	590,554
Tobacco.....	580,000	616,424
Beer	260,000	256,898
Alcohol	150,000	153,100
Sugar	245,000	237,723

¹ Provisional figures.
² Includes a total of 3,245,000 marks wrongly imputed to the year 1924-25 by the Accounting Office of the Reich, and made up as under:

Customs	113,000
Tobacco	612,000
Beer.....	985,000
Alcohol.....	9,000
Sugar	1,526,000
	3,245,000

(3) The estimated revenue for the fiscal year 1926-27, which contains five months of the second annuity year and the first seven months of the third annuity year, is as follows:

	In thousands of Reichsmarks
Customs	580,000
Tobacco	655,000
Beer	235,000
Alcohol	172,000
Sugar	265,000
Total	1,907,000

The increase in the estimate for the tobacco tax over the yield in the previous year is accounted for by the fact that the entire fiscal year 1926-27 will have the benefit of the increased cigarette taxes. The figure for the beer tax takes account of the changes to which reference is made below. The increase in the estimate for the sugar tax is based on the fact mentioned above that the year 1925-26 produced only 10½ months' effective yield of duty. The higher figure shown for the alcohol duty presumably reflects the hope that the impending changes in the administration of the Monopoly will react favourably on the yield.

II.

(1) Attention has been drawn above to the abnormal nature of the Customs receipts in the earlier months of this period. It is to be observed, however, that the receipts for February and March, which were subjected to no disturbing influences, remain at a relatively high figure when compared with the average receipts twelve months ago, although in general imports have in the meantime considerably decreased. While, therefore, it is too early to form a definite opinion on the effect of the new duties on the yield, there is reason to suppose that on the whole the revenue has gained appreciably from the changes.

In this connection it is of interest to note that while imports in general have declined, the importation of luxury articles of consumption, which alone furnish an appreciable percentage of the Customs revenue, remains fairly constant, as may be seen from the following table:

	September 1924 to February 1925	September 1925 to February 1926
	Monthly average of duties raised	
	In thousands of Reichsmarks	
Coffee	9,149	10,241
Cocoa	2,883	2,321
Tea	958	923
Tobacco	2,584	2,085
Wine	1,866	2,415
Total	17,440	17,985

The rates on coffee, cocoa, and tea were the same in the two periods. The rate on wine was higher in the second period, but the figure of 2,415,000 marks includes a considerable proportion of duty raised before the 16th October, 1925, when the higher rates came into effect. Furthermore, the proceeds of the Customs duty on tobacco were abnormally deflated during the later period by reason of the fore-stalments made in anticipation of the higher rate which came into force on the 16th August, 1925. If allowance is made for this latter fact it would appear that the yield of the Customs duties on this group of luxury articles shows some tendency to increase.

(2) It will be remembered that, as from the 1st October, 1925, a new system of cigarette taxation was introduced under which a specific tax on the tobacco used, combined with an *ad valorem* tax on the retail price, was substituted for the old 40 % *ad valorem* tax. The transition from the old to the new system was governed by the following regulations.

(a) The specific materials tax of 900 marks the 100 kilograms became due on each entry of tobacco leaf into the factories. On proper security, credit could be given, without interest, for five months in the case of entries in October and November 1925, and for six months for all later entries.

(b) All stocks of unworked or partially worked leaf and all cigarettes on factory premises and in the warehouses for untaxed cigarettes (Steuerlager) on the evening of 30th September became liable to the materials tax, called in this case "Nachsteuer".

(c) The executive measures respecting the collection of "Nachsteuer" were left by the law of 10th August, 1925, to the Finance Minister. In his decree of the 10th September, 1925, he fixed the following dates for the payment of the tax :

- (1) for partially manufactured tobacco and for untaxed cigarettes, in three equal instalments on 26th October, 26th November, and 28th December, 1925;
- (2) for unworked leaf tobacco, one-sixth to be paid on 25th January, one-sixth on 25th February, and the remaining two-thirds on 25th March, 1926;
- (3) for cigarettes in Steuerlager, the tax to be raised on fortnightly deliveries, and then to be paid after the legal delay allowed for the payment of the banderole tax.

(d) All banderoles sold were at the 20% *ad valorem* rate only.

The amount of tax raised under c (1) above amounted to only about 6 million marks, and the collection was effected with practically no difficulty. The tax due on unworked tobacco was, however, very heavy, as the big factories had stocked heavily before the 16th August last, the date of the increase in Customs duty on imported tobacco. The total tax raised, and payable between January and March 1926, was about 125 millions. On the request of the manufacturers for indulgence, the Finance Minister extended the time allowed for payment, and ordered the collection to be effected in ten equal instalments in the months March to December, 1926, inclusive. In March only 11,026 million marks were collected, but it is probable that a fair amount of the outstanding 1.5 millions was collected in the early days of April. The tax amounts raised on deliveries from Steuerlager are not important, and the collection appears to be proceeding normally.

It is as yet too early to form a definite opinion on the results of the new system and its effect on the revenue, but it is already clear that some of the fears expressed in my last report are likely to be realised. The system has proved unpopular with the trade and particularly with the small manufacturers. The cheapest cigarettes have been driven from the market and those that remain at 4 and 5 pfennigs are reduced in weight. There have been some indications of a shift from cigarettes to "cigarillos". It is not improbable that the Finance Minister will be forced to have recourse to the power which he possesses under the Law to vary the proportions of specific duty and *ad valorem* tax in such a way as to give some relief to the trade.

It is fair to add that some of the complaints made against the present system by the interested parties ascribe to it too large a proportion of the difficulties under which they are undoubtedly labouring. The new system was introduced as a severe economic crisis was setting in. The general effect of this crisis has been to drive out of business a vast number of uneconomic units developed during the period of inflation. There can be no doubt that the cigarette in-

dustry was not exempt from the disease from which German industry in general was suffering, and that over-equipment, excessive competition, and defective administration made it vulnerable. The process of economic purification has therefore aggravated the trials to which the new system of taxation exposed the industry. It has been tempted to overlook its share in the general economic trouble and to ascribe all its difficulties to the action of the taxing authority, an attitude which is, of course, tactically useful in negotiating with that authority. A longer experience of the new system in a more normal period will be required before final judgment can be passed upon it.

(3) As mentioned in my last report the beer tax was increased last summer by $33\frac{1}{3}\%$, the increase to take effect as from the 1st April, 1926. The interests affected were not content with a success which had converted the late Government's proposal for an immediate doubling of the tax into a one third increase the operation of which was postponed. The adoption of a policy by the present Government of tax alleviation increased their agitation for the outright cancellation of the addition to the tax, or, alternatively, the postponement of its coming into force. The agitation was firmly resisted by the Finance Minister until late in March, when he found himself compelled to suspend, for an indefinite period, the wine tax (which is not a controlled revenue), and proposed to Parliament at the same time that the increase in the beer tax should be postponed until the 1st January, 1927. The resultant loss of revenue was made up by reducing the turnover tax to .75 per cent only and not to .60 per cent as originally intended. In enquiring officially whether I desired to offer objection to it, the Minister of Finance informed me that the cheapening of wine resulting from the suspension of the wine tax "would probably have the effect of subjecting the brewing industry, whose sales, particularly in S. Germany, were closely connected with the consumption of wine, to greatly increased competition, and it could not be expected at the moment when the wine tax was abolished to assume the burden of the increase in the beer tax proposed in the law of the 10th August, 1925".

This, the sole, reason given for the change did not appear to me to be convincing, and I felt compelled, for reasons which, in view of the publicity given to the matter, it is as well to state, to express objection to the reduction. The increase in the tax was accompanied by a general extension from two weeks to two months of the period allowed for payment, and it was proposed to postpone this concession to the producer at the same time as the additional burden upon him. It followed, therefore, that the proposal to postpone the increase until four months of the third Reparation year had elapsed was a proposal to postpone the effective yield of the increase for six months. Moreover, an additional effect of the extension of the period of payment was to involve the third Reparation year in a further loss of six weeks' yield of the beer tax at its old rate, and in the aggregate the controlled revenues lost a sum which might be estimated at approximately 75 million marks.

The amount of the budget contribution to reparation in the third year being fixed at 110 million gold marks plus one-third up to 250 million marks of the amount by which the aggregate yield of the controlled revenues should exceed one milliard, I felt bound to scrutinise with care any measure which reduced the aggregate yield, and only to consent if it could be established that to withhold consent would cause either serious hardship to the taxpayer or damage to the economy of Germany. Such careful scrutiny was all the more necessary in a case where the Government had merely substituted a tax in which the reparation creditors were not interested, namely the turnover tax, for one the proceeds of which might enure to their direct benefit. The general taxpayer of Germany was neither worse nor better off after the postponement of the beer tax than before it, except that he stood to gain by a proportionate curtailment of reparation payments if the aggregate yield of the controlled revenues in the third reparation year fell below $1\frac{1}{4}$ milliards.

While there was ground for hope that, in spite of the reduction, the controlled revenues would reach this figure, a careful examination of the probable yield of the controlled revenues in detail led to the conclusion that there could be no certainty on the point.

The budget, as I have explained above, was unaffected by the Government's proposal. As regards the taxpayer, the disclosed profits of the brewing industry did not suggest that they would be unable to resist increased competition, or to bear the additional burden represented by 2 pfgs. on a litre.

I therefore felt it my duty to withhold my consent, and request the Finance Minister not to proceed with the proposal. The Finance Minister found himself compelled to contest my jurisdiction and to appeal to arbitration on a point of law. The Control Protocol providing that an appeal to an arbitrator shall not operate to suspend action, the Government's proposal was duly passed into law at the end of March.

The question of interpretation which has arisen requires some explanation. In Chapter III, Article 11, of the Control Protocol it is provided that "the rates of the assigned duties on spirits, tobacco, beer, and sugar, shall not be reduced by the German Government without the consent of the Commissioner". This article contains no other words and appears to be absolute. The German Government, however, takes the view that my consent to a reduction cannot be withheld unless Article 7 of Chapter III of the Protocol, which extends my rights under certain conditions, has come into effective operation. The first part of this Article reads as follows:

" 7 The rights of the Commissioner as laid down in Article 6 shall be extended:

- (a) If for three consecutive months the amount of the assigned revenues paid to the account of the Commissioner is less each month than 120% of $\frac{1}{12}$ of the budget liabilities for the current year or

- (b) If for six consecutive months—during which the relevant legislation, and more particularly the tariffs have remained unmodified—the amount of the assigned revenues paid to the account of the Commissioner falls short in all by more than 35% of the amount for the corresponding months of the preceding year or falls short by more than 30% of the average amount for the corresponding months of the two preceding years or
- (c) If for six consecutive months—during which the relevant legislation and more particularly the tariffs have remained unmodified—the total yield remitted by one of the controlled revenues falls short by more than 50% of the yield remitted during the corresponding months of the preceding year.”

The article proceeds to determine the nature of the extended rights enjoyed by the Commissioner under the conditions above mentioned. The German Government's contention is that I have no power to withhold my consent unless there is a falling-off in the yield of the revenues, as such falling-off is defined in (a), (b), and (c) above, and unless in addition there is a decrease in the returns from the particular revenues as to which a reduction in rate is proposed.

In the meantime I have formally given my consent to a postponement of the increase in the beer tax up to the 30th June, which can involve no loss of revenue in the third Reparation year. The position under the Protocol is thus regularised without prejudice to the question of interpretation at issue until that date, before which it is hoped that the arbitrator will have given his decision.

In leaving this subject, it is perhaps worth while to draw attention to the fact that in a country where complaints as to the burden of taxation on production are rife, the tax on beer is equivalent to one eighth, and the tax on potable spirit to one tenth, of the similar taxes in Great Britain, while wine, except for approximately one shilling on a bottle of champagne, is relieved from all taxation whatever.

(4) The production and consumption of sugar have up to date been approximately the same as last year, but owing to the large world supplies available, prices have been considerably lower. The extent to which the increased supply has affected the situation may be seen from the fact that German exports, which for the first six months of the last sugar year were five times as large as imports, have in the same period of this year been negligible, whilst importation, though still not important absolutely, has increased by over 40%. Efforts are being made by the sugar industry to increase exports.

The decrease in the wholesale price of sugar has naturally raised the *ad valorem* burden of the tax. On the other hand it has enabled the retail price to be reduced to such an extent that in spite of the economic crisis and general unemployment consumption per head has been maintained slightly above pre-war level.

In the course of the recent debates on the Budget, the Reichstag passed a resolution to the effect that the sugar tax was to be reduced if the loss in revenue could be made up by an increased yield from the Alcohol Monopoly. Any proposals which the Government may make to this end will be very carefully scrutinised. In view of the high level of consumption which has been reached it may be regarded as reasonably certain that the lowering of the rate of the tax would involve a loss of revenue.

(5) The relatively low returns from the alcohol duty, to which I have drawn attention above, form the chief argument in the criticisms against the present administration of the monopoly, to which I referred in my previous Report. The low returns are the natural result of a reduced consumption of the taxed spirits. The amount consumed per head of the population has fallen by approximately 60 per cent in comparison with the pre-war figures, i.e. it amounted to approximately 1.1 litre in 1924-25 as against 2.8 litres in 1912-13.

Such a decline in the consumption of spirits cannot be explained entirely by the rise in the rate of the tax, which has only been slightly more than doubled. A decrease in wealth and a change in social customs are certainly responsible for some of the decreased consumption, but one opinion which is widely held in Germany to-day is that the decrease in legitimate consumption is largely accounted for by the increase in fraudulent practices, to which I have already referred, and by the special conditions laid down by law for the production and the sale of spirits.

In so far as the reduction in consumption is due either to decreased spending power or a change in custom, an increase in the rate of taxation would obviously produce less, and not more, revenue. A reduction in the rate of taxation on the other hand might, if correctly calculated, so increase consumption as to increase the yield, but on other than fiscal grounds, taking into consideration the fact that the existing rates are low compared with those prevailing, for instance, in England, a reduction might be regarded as a retrograde step. It is therefore to reforms in the administration of the Monopoly, if anywhere, that one must look for any important improvement, and for this reason it is perhaps worth while to present a brief outline of the conditions under which the existing system operates.

Potatoes and cereals when distilled leave a residue which is generally used as fodder for cattle, and is particularly sought after by the cultivators of the sandy districts in the East of Germany, who are thereby enabled to raise cattle on an economic basis and to increase the return on land which is naturally poor. Long before the war, it was a settled policy to reserve the greater part of the production of alcohol for distilleries connected with agricultural undertakings which had an important interest in that production. This system was maintained by the Laws of 1918 and 1922 concerning the Alcohol Monopoly, and agricultural distilleries are to-day protected against the competition of industrial distilleries and of those employing the newer methods of production.

Production is rationed, each old distillery having a "Brennrecht," or distilling right, for a certain number of hectolitres. The value of the ration or distilling right lies in the fact that alcohol produced within the limits of the ration is purchased by the Monopoly at a price which is always higher, and which can be much higher, than that fixed for alcohol produced in excess of the ration, or for alcohol produced by distilleries which have no ration. The law authorises the Monopoly to fix for each alcohol year a certain percentage by which the rations of all the distilleries are to be reduced or increased, and the Monopoly thus possesses a simple means of adjusting production to estimated demand. Since the 1st October, 1923, the ration has always been fixed at 30% below normal.

As regards the organisation proper of the Monopoly, I shall confine myself to mentioning two of the points which have been most frequently discussed in connection with its reform.

(1) The most important decisions, in particular the fixation of the percentage of the ration and the establishment of the purchase and sale prices, are not left to the discretion of the Management of the Monopoly, but must be taken by a special Committee called the "Beirat" which is composed of thirty members and includes representatives of the distilleries, the Reichstag, the Reichsrat and the consumers. Decisions are taken by a majority of votes, the Management holding only three votes as opposed to the votes of the members of the "Beirat" present.

(2) The buying prices paid by the Monopoly to the private distilleries are calculated on a unit "basic price" modified in many cases in accordance with a system, fixed by law, of supplements or reductions. In order to protect the distilleries against the possibility of the buying price being fixed at too low a figure, a provision has been inserted in the law prescribing that the "basic price" must cover the average costs of production of a moderate-sized and well administered agricultural distillery for the distillation of potatoes, the residue from the distilled potatoes being left to the entrepreneurs as profit.

In both ways the liberty of action of the Monopoly is considerably restricted. These restrictions explain the statement made by the late Finance Minister before the Reichstag on the 2nd July, 1925, to the effect that "the administrators of the Monopoly found themselves all the time faced by economic problems which were practically impossible of solution." The present Finance Minister also remarked in the Reichstag that "anybody reading the present Law through carefully would see that it was almost impossible to expect better results from such a Law."

What has made the problems before the Monopoly so difficult to solve is primarily the fact that the production of spirits in Germany has always been on a large scale, and that even before the war it was much in excess of the demand for potable spirits. In order to find markets for this output, attempts have been made to extend the domestic and industrial uses of spirits by offering it at attractively low prices. The buying price paid by the Monopoly to private distilleries for unrefined spirits has varied as a general

rule during the year between 40 and 60 marks per hectolitre. Potable spirits are resold by the Monopoly for 430 marks, 280 of which are transferred to the Reich as tax and 150 retained by the Monopoly. The Monopoly therefore realises large profits on these sales. Spirits for the manufacture of perfumes and medicaments are sold at 200 marks, 80 of which represent the tax. Spirits for vinegar are sold without tax at 70 marks, which is practically cost price.

On the other hand the Monopoly sells at a loss:

denatured spirit and spirit for	
industrial purposes	30 marks per hectolitre,
spirit for export	27 " " "
spirit for motive power	15 " " "

These prices are fixed in such a manner that the loss on the spirit sold at reduced prices is compensated by the profits on the sales effected at 430 and 200 marks. The relative importance of the sales effected at the different prices can be seen from the following figures which refer to the period 1st October, 1924, to 30th September, 1925:

Quantities sold by the Monopoly	(hectolitres of pure spirit)
1. Spirits sold at the so-called "normal" price (mainly potable spirits)	552,000
2. Spirits for pharmaceutical purposes and for perfumes	53,000
3. Spirits for the manufacture of vinegar	129,000
4. Denatured spirits, spirits for industrial pur- poses	886,000
5. Spirits for export	268,000
6. Spirits for motive power	54,000
Total	1,942,000

The application of a system which entails selling spirits liable to the tax at a very high price and tax-free spirits at a loss is naturally limited by the extent to which the selling price of potable spirits can be raised without reducing consumption. It entails two great disadvantages: it reacts unfavourably on the consumption of taxable spirits and consequently on the proceeds of the tax, and further by creating divergencies of prices not uniformly related to the variations of tax among the different categories of spirits, it furnishes an additional incentive to fraudulent practices. The system has, however, become traditional in Germany, and reasons are not wanting for holding that a change might, at the present moment at any rate, considerably increase the difficulties with which the Monopoly has to contend.

The Monopoly's outstanding difficulty is to find a market for the quantities received by it from the producers, even although the production of spirits in Germany has fallen off considerably as compared with pre-war years (1912-13 3,800,000; 1924-25 1,800,000 hectolitres). During 1924-25 its unsold stocks amounted at the highest point to almost 1,800,000 hectolitres. The amount produced in 1925-26 has so far been in excess of the production

for the corresponding months of the previous spirits year. The stocks held by the Monopoly have therefore begun again to increase and amounted to more than 1,700,000 hectolitres on the 31st March, 1926.

Confronted by this state of affairs the Monopoly has taken steps further to restrict production during the coming season. The Committee of Enquiry appointed by the Reichstag has begun its work but has not yet published its report. The Bill for a reform of the Monopoly appears to be passing through the last stage of preparation. It would appear as if an attempt was being made at the present time to find a final form of compromise which would give more freedom of action to the Monopoly without requiring too heavy sacrifices from the agricultural distilleries, whose output is already very much below that of pre-war days. It is also thought that the Bill will further contain clauses facilitating the combating of fraud. Since my last report was written, fresh cases of fraud have been discovered, principally in connection with imports. Taken as a whole, however, they would appear to be of a less serious nature than those reported previously, and success is claimed for the remedial measures to which reference is made in my last report.

III.

Inspections have been carried out at the Oberfinanzkassen in Brandenburg (in Berlin), Bremen, Breslau, Cassel, Dresden, Düsseldorf, Hamburg, Hannover, Köln, Königsberg, Leipzig, Magdeburg and Neisse; at Zollkassen Berlin-Süd, Breslau-Nord, Dresden-Altstadt, Halle a. Saale, Hamburg-Theerhof and Magdeburg-Kaufhof, all of which belong to the group of Zollkassen which remit pledged receipts directly to my account; and at several of the ordinary Zollkassen. Only minor errors and omissions were discovered, and everywhere the collection, blocking and transmission of revenues appeared to be effected with satisfactory thoroughness. In addition, shortly after the new system of taxation came into force the tax accounts of one large and one small cigarette factory in Dresden were examined and enquiries were made as to the method of tax control. At both factories the revenue supervision appeared to be adequate.

The administrative modification of the control of Kassen remittances mentioned in the final paragraph of my last report somewhat increases the work of inspection and appears to render satisfactory auditing by the German supervising officials less easy. Inspection visits have, however, shown that all the offices concerned are doing their best to minimise difficulties.

May 7, 1926.

Signed: ANDREW MC FADYEAN.

Report of the Trustee for German Industrial Debentures.

September 1, 1925, to February 28, 1926.

During the first half of the second year of the application of the Experts' Plan (September 1, 1925—February 28, 1926), the Bank für deutsche Industrie-Obligationen (hereinafter called "the Bank") and the Trustee for the German Industrial Debentures (hereinafter called "the Trustee") have worked normally, acting in agreement and in conformity with the Industrial Charges Law of August 30, 1924 (hereinafter called the "Industriebelastungsgesetz").

A difference of opinion had arisen between the German Government and the Trustee with regard to the interpretation of certain provisions of the Industriebelastungsgesetz relating to the extent of the mortgage under public law (Öffentliche Last) created as a guarantee for the industrial debentures. The German Government was of opinion that under the law only real property and assimilated rights belonging on September 1, 1924, to the working capital (Betriebsvermögen) of the concerns subject to the Industriebelastungsgesetz ought to be liable to the mortgage under public law; the Trustee, on the contrary, held that in virtue of the law the mortgage under public law should apply to all real property and assimilated rights belonging to the working capital of a mortgaged concern, regardless of the date on which they were created or acquired. The dispute was submitted to Mr. Marcus Wallenberg of Stockholm, the Arbitrator, for whom provision is made in § 69 of the Industriebelastungsgesetz. The terms of submission to the Arbitrator were as follows:

" . . . whether the public law mortgage on the real property and rights assimilated thereto belonging to a concern subject to the industrial charge under the terms of the said Law is limited to the immovable property and rights assimilated thereto which were part of its working capital (Betriebsvermögen) on September 1, 1924, or whether the mortgage also extends to:

- (a) the immovable property and rights assimilated thereto which have been added since September 1, 1924, to the working capital (Betriebsvermögen) of a concern subject to the industrial charge, or which may be added in the future;
- (b) the immovable property and rights assimilated thereto which form part of the working capital (Betriebsvermögen) of a concern exempt from the charge at the first distribution, or of a newly created concern, which are subsequently subjected to the industrial charge."

Under date of December 28, 1925, the Arbitrator adopted the view of the Trustee and pronounced the following award:

"The public law mortgage extends to the immovable property and rights assimilated thereto specified in paragraphs *a* and *b* of the question submitted for decision."

This award, which was published by the German Government in the *Reichsgesetzblatt* (Nr. 7 page 148, Part II of February 26, 1926) makes it impossible to decrease the public law mortgage, which constitutes the real guarantee for the industrial debentures.

On the one hand, any decreases which may be brought about by the liquidation of concerns existing on September 1, 1924, will be counterbalanced by the public law mortgage established on the real property acquired by new concerns, created later than September 1, 1924 and liable to the industrial debentures charge.

On the other hand, on the occasion of each fresh distribution, the debentures representing that part of the charge, which was borne by concerns subject to the first distribution and has been transferred to concerns which were not subject to the charge on September 1, 1924, will themselves be also secured by the mortgage guarantee.

Finally, where concerns subject to the charge at the time of the first distribution have subsequently increased their working capital (*Betriebsvermögen*), the public law charge will apply equally to the real property added to the working capital of the mortgaged concern, with the result that in this case also the mortgage guarantee will not be reduced.

With a view to the progressive application of the provisions of the Industriebelastungsgesetz, the German Government, on December 5, 1925, issued a seventh decree (*Reichsgesetzblatt* part II, No. 56, page 1156).

This decree further defines § 46, point 2, of the law, so as to leave no ambiguity with regard to the provision contained in the last sentence of point 1 of the same paragraph, whereby applications signed by the Bank will take the place of a writ of execution.

The provisions of the Code for Civil Procedure mentioned in § 46, point 2 cannot be interpreted in such a way as to necessitate the pronouncement of a decree of execution — the application by the Bank takes the place of such a decree. The courts of law may likewise not fix the amount of the charge, but must comply on this point with the decisions of the finance authorities.

The same decree further gives the regulations, for which provision is made in § 49 point 2 paragraph 2 of the law, concerning the notification, which has to be sent in due time to the Bank, in the event of the liquidation, closing down, or dissolution of a concern liable to the industrial charge.

In order to enable the Bank to apply the provisions of § 7 of the Industriebelastungsgesetz and to determine the charge on concerns coming under this paragraph of the law, the decree makes it compulsory for each concern to declare, in the interval between two distributions, the establishment of new undertakings which may be liable to the charge or any increases in the working capital (*Betriebsvermögen*) of a concern already charged.

Under the Industriebelastungsgesetz, during the second year of application of the Experts' Plan—September 1, 1925, to August 31, 1926,—the concerns have to pay an annuity of 125,000,000 gold marks, being interest at the rate of $2\frac{1}{2}$ per cent on the total

nominal capital of 5,000,000,000 gold marks represented by the individual debentures issued by the concerns, which are in the custody of the Trustee and the Bank. During the third year (1926—1927), the annuity will be 250,000,000 gold marks, representing interest at 5 per cent, and as from the fourth year, it will be 300,000,000 gold marks representing interest at 5 per cent and 1 per cent amortisation. Under the terms of agreements concluded between the Bank and the Trustee, the first annuity has to be paid in two equal instalments, the first to be effected on April 1, 1926, and the second on August 25, 1926. On April 1, 1926, the Bank paid the first half annuity of 62,500,000 gold marks to the account of the Agent General for Reparation Payments with the Reichsbank for the account of the Trustee.

As the Trustee has as yet sold none of the debentures, this sum was put at the disposal of the Reparation Commission.

The annuities intended for the service of interest and amortisation on the debentures are accumulated by the Bank in virtue of and in accordance with the provisions of the "Law for the Production of the Industrial Charges" (hereinafter called the "Aufbringungsgesetz"), to which reference has already been made in the report of April 10, 1925, which deals with the period from September 1, 1924 to February 28, 1925.

This law, which is based on the recommendations contained in the Experts' Plan and is in fact their practical realisation, aims at adjusting and equalising the charge imposed upon German industry. With this aim in view, it enlarges the number of concerns liable to the charge. The Aufbringungsgesetz accordingly does not apply only to concerns liable to the Industriebelastungsgesetz (i. e., industrial and trading concerns, including mines and maritime and inland shipping concerns, private railways, narrow gauge railways and tramways whose working capital—Betriebsvermögen—exceeds 50,000 gold marks); it also applies to concerns of these categories whose working capital (Betriebsvermögen) does not exceed 50,000 gold marks but is more than 20,000 gold marks, and, further, to concerns devoted to banking, insurance, the keeping of hotels, cafés and boarding houses, and all commercial concerns, whose working capital exceeds 20,000 gold marks. The undertakings of the Reich, the Federal States and the Communes and undertakings whose profits are assigned *in toto* to the Reich, the Federal States or the Communes are subject to the Aufbringungsgesetz, although they were not subject to the Industriebelastungsgesetz.

As recommended by the Experts' Plan, the Aufbringungsgesetz exempts from the charge agricultural, sylvicultural and horticultural undertakings, undertakings devoted to cattle raising, viticulture and fishing, as well as subsidiary exploitations of an agricultural, sylvicultural or horticultural nature run in connection with industrial concerns. Finally, exemption is granted to savings banks which confine their activities to transactions connected with savings, establishments devoted to science, art or education, charitable institutions and, finally, the postal service of the Reich and the German Railway Company.

By distributing the charge over a larger number of concerns, it effectively relieves the burden constituted by the service of interest and amortisation on the industrial debentures, which only a part of the German concerns is obliged to issue and deliver.

Legally, in spite of the Aufbringungsgesetz, the concerns subject to the Industriebelastungsgesetz are answerable for the whole sum due from them; they are only freed from their current obligation when the payments made in virtue of the Aufbringungsgesetz entirely cover the sums due annually or semi-annually. In other cases, where the sums collected under the Aufbringungsgesetz are not sufficient to ensure the payments fixed by the Industriebelastungsgesetz, the Trustee and the Bank still retain the right to institute proceedings against the concerns and to demand from them the payment in full of the contributions for which they are liable in respect of the individual debentures issued by them.

The liability created by the Aufbringungsgesetz is similar to that established under the Industriebelastungsgesetz. Both are personal liabilities under public law and enjoy, in regard to the collection of the sums due, the privileges provided for the recovery of taxation.

As the liability is assimilated to taxation in regard to the means of recovery permissible, the legislation makes no provision for any special guarantee. One further difference should be noted between the terms of the two laws composing a charge on industry: whereas under § 5 of the Industriebelastungsgesetz no appeal by the mortgaged concerns is allowed except in regard to the amount of the negotiable debentures, § 9 of the Aufbringungsgesetz admits the right of appeal against the decision fixing the amount of the contribution claimed from each concern.

The Aufbringungsgesetz provides that, in addition to the annuities due for the service of interest and amortisation on the industrial debentures to the amount of 5 milliards nominal, the concerns subject to the charge have to pay a supplement of 10 per cent to enable the Bank to constitute an adjustments and guarantee fund. This supplement will be reduced to 5 per cent as soon as the fund has reached the sum of 150 million gold marks; it will be totally abolished as soon as the fund has reached the sum of 300 million gold marks, representing the amount of a normal annuity in respect of interest and amortisation. If the fund subsequently falls below this amount, the supplement will again be collected, although the rate may be reduced by the Government of the Reich.

In order to secure the execution of the Aufbringungsgesetz, the following decrees have been issued by the Government of the Reich:

(1) The first decree of November 16, 1925 for the application of the Aufbringungsgesetz (*Reichsgesetzblatt II* No. 50 page 971) makes it generally obligatory for concerns subject to the law to submit a declaration of their assets; it defines and enumerates in detail the concerns subject to the charge and declares that the law is applicable to all undertakings which existed on January 1, 1925 or were established between January 1, 1925 and October 31, 1925.

(2) The second decree of December 4, 1925, for the application of the Aufbringungsgesetz (*Reichsgesetzblatt II* No. 54, page 1135) defines in detail the undertakings which are to be subject to the law; it states that any person who, under the provisions of the Real and Personal Property Tax Law (*Vermögensteuergesetz*) of 1925 is the owner of the working capital (*Betriebsvermögen*) must be held to be the entrepreneur of the concern within the meaning of the Aufbringungsgesetz. In virtue of this provision, unlimited liability companies and commandite companies are "entrepreneurs", and not the partners or persons who merely own shares or holdings in such companies. The decree further stipulates that the basis of assessment for the first distribution of the charge among the entrepreneurs is the working capital (*Betriebsvermögen*) provisionally or definitively assessed for the 1925 Real and Personal Property Tax; it fixes the exemption limits; declares that the Government of the Reich will determine the percentage of the working capital in respect of which each concern must assume the service of interest and amortisation; provides that the 1926 annuity must be paid in two equal instalments on February 1 and June 1, 1926; indicates the procedure for notifications to the mortgaged concerns and for any appeals which may be lodged; enumerates the guarantees enjoyed by the annuities in the event of forced sales or sequestration; and exempts the industrial bonds and individual debentures created under the *Industriebelastungsgesetz* from the tax on securities prescribed in the Movement of Capital Tax Law (*Kapitalverkehrsteuergesetz*).

(3) The third decree of January 12, 1926 for the application of the Aufbringungsgesetz (*Reichsgesetzblatt II* No. 3, page 101) states that the percentage of the working capital (*Betriebsvermögen*) fixed for the distribution of the charge of 5 milliards among the concerns called upon to make payments under the Aufbringungsgesetz is 13.64 per cent for 1926; it states that, where the concerns liable to the charge are occupied in the business of high-sea shipping, inland shipping, or air transport, the basis for estimating the first distribution will be half only of the working capital (*Betriebsvermögen*); finally, in derogation from the second decree, it fixes February 15, 1926 as the due date for the first instalment to be paid by the concerns.

The payments to be made in two equal instalments in respect of interest for 1926 amount to $2\frac{1}{2}$, per cent of the capital amount of the debenture issued by each concern, to which is added a supplement of 10 per cent for the reserve fund, making a total, as indicated in the decree, of 3.75 per thousand of the working capital (*Betriebsvermögen*) of the concerns.

This figure is explained as follows: interest at the rate of $2\frac{1}{2}$, per cent is due for the second reparation year on the 5 milliards of industrial debentures. In view of the fact that, under the Aufbringungsgesetz, these 5 milliards represent 13.64 per cent of the total value of the working capital (*Betriebsvermögen*) of the mortgaged concerns, the rate of $2\frac{1}{2}$, per cent has to be calculated on the percentage of 13.64; by adding the supplementary payment of 10 per cent provided for the constitution of

the guarantee fund, we obtain the rate of 3.75 per thousand of the working capital.

It may be said with confidence that by the Aufbringungsgesetz and the decrees for its application the Government has taken measures on the one hand to ensure the punctual and fairly easy recovery on the due dates of the sums representing the industrial charge, and on the other hand to relieve the charge imposed by the Industriebelastungsgesetz by enlarging the number of mortgaged concerns, and to supply a further guarantee for the charge by the constitution of a considerable reserve fund.

Statistical enquiries into the results of the first distribution have shown that the total charge of 5 milliard gold marks is divided as follows among the principal categories of industries subject to the Industriebelastungsgesetz:

	Percentages	
	Provided by the Law	Actually obtained
(a) Heavy industry (mines and manufacture of iron and steel)	20	18.2
(b) Machine and electrical industry (including the generation of electrical power)	17	20.1
(c) Chemical industry	8	9.4
(d) Textile industry	7	10.7

The percentages actually obtained approximate to those provided by the Industriebelastungsgesetz. The only deficit to be noted is in the case of the heavy industry and does not exceed the 10 per cent authorised. For the next distribution therefore, the Trustee will not have to ask for the readjustment mentioned in Article 8 of the Law.

This article provides that, if the results of a distribution are such that one or more of the percentages work out at a tenth lower than the percentages fixed in the list, the difference must be covered at the next distribution. For this purpose the share of the debt imposed upon the groups concerned will be increased by a charge equal to the difference between the percentages actually obtained and those attributed in the list, diminished by one-tenth; this would mean a corresponding reduction for all the other groups of mortgaged concerns. The Trustee may, however, waive this readjustment if the difference between the percentages fixed by the Law and the percentages actually obtained is due, not to any defect in the distribution procedure, but to the natural course of evolution or to a passing crisis in the industry concerned.

As on the one hand concerns which have issued individual debentures have so far not exercised their right of redemption, and as on the other hand the conditions required for the issue of the debentures on the international market are not yet realised, the

Trustee still holds the 5 milliard gold marks of industrial debentures in full. The 5 milliards are made up as follows:

4,346,500,000 gold marks of 5 per cent industrial bonds to bearer, producing interest at the rate of 5 per cent per annum, first coupon due on the 1st of November 1926, and redeemable at par by drawings at the rate of 1 per cent per annum plus interest saved, first drawing taking place during the month of June 1928.

653,500,000 gold marks of 5 per cent individual debentures to bearer from which the Trustee may select and place on the market a total of 500 million gold marks as provided by the Industriebelastungsgesetz. The payment of the interest of 5 per cent and the amortisation at the rate of 1 per cent per annum plus interest saved are effected under the same conditions as those in force for the industrial bonds.

The Bank für Deutsche Industrie-Obligationen closed its first financial year on December 31, 1925. The Balance Sheet and Profit and Loss Account established as on that date are as follows:

Balance sheet.	
	Reichsmarks
<i>Assets:</i>	
Share Capital not yet paid up	5,000,000.00
Cash in hand	1,121.94
Credit Balance at the Reichsbank	178.20
Postal Cheque credit balance	221.08
Credit balances at other banks	4,701,822.50
Debtors	75,820.95
Inventory	83,700.42 reichsmarks
Written off	83,699.42 "
	1.00
Capitalised amount of the claims of the Bank under the Industrial Charges Law	5,000,000,000.00
Interest due to the Bank in respect of the Industrial Charge for the period from September 1 to December 31, 1925	41,666,666.67
Loss 1924-25	<u>229,718.61</u>
	5,051,675,550.95
<i>Liabilities:</i>	
Share Capital	10,000,000.00
Creditors	8,884.28
Capitalised amount of the claims of the Trustee under the Industrial Charges Law	5,000,000,000.00
Interest due to the Trustee in respect of the Industrial Charge for the period from September 1 to December 31, 1925	<u>41,666,666.67</u>
	5,051,675,550.95

Profit and loss account.

<i>Dr:</i>	Reichsmark
To Expenses of Management	825,210.11
Written off from Inventory	<u>83,699.42</u>
	908,909.53

Cr:

By Receipts from interest	436,920.15
Trustee's share in the costs of management	242,270.77
Loss 1924-25	<u>229,718.61</u>
	908,909.53

The financial year 1924-25 was a year of organisation for the Bank, and it was easy to foresee that during that period it would not succeed in covering its expenditure. Moreover, the organisation is not yet fully developed and it is possible that the Balance Sheet for the financial year 1926 will show no profits. It should further be noted that the object of the Bank, as defined in the Industriebelastungsgesetz and the Statutes, does not give it the absolute freedom which would be necessary if it were to carry on all the business usually transacted by Banks.

In conformity with the Statutes of the Bank, the five following members of the Managing Board retired at the end of the financial year: Ministerialdirektor Ernst Bail, Ministerialrat Dr. Herbert Dorn, Dr. Clemens Lammers, Dr. Paul v. Schwabach, Dr. Ernst Trendelenburg, Secretary of State. These five members were eligible for re-election and were re-elected. Dr. Krupp v. Böhnen und Halbach was re-elected Chairman of the Managing Board.

Dr. Friedrich Ramhorst, who was provisionally appointed by the Government of the Reich as a member of the Management of the Bank, retired on the date fixed and was replaced by Dr. Robert Gorlitt.

During the financial year which ended on December 31, 1925, the Bank organised its internal work so as to be able to deal with the various tasks incumbent upon it; by means of the measures taken and the co-operation of all its departments, it has carried out the duties entrusted to it by the Industriebelastungsgesetz, in particular by facilitating the relations between the German Government, the Trustee and the entrepreneurs, for whom it has served as a liaison organisation.

As is shown by the above Report, the half year from September 1, 1925 to February 28, 1926 was still a period of organisation, during which the operations incumbent upon the Trustee and the Bank developed in absolute conformity with the Industriebelastungsgesetz—the Government of the Reich having adopted by means of Decrees all the measures shown to be necessary in order to ensure the execution of the Law.

Under these circumstances, and having regard to the manner in which the Industriebelastungsgesetz and the provisions made for

its application guarantee the punctual payment of the annuities for which the mortgaged concerns are liable, the Industrial Bonds will attain their full value, as soon as the payments of the industrialists in respect of interest and amortisation on the debentures issued by them, which are the collateral of the Industrial Bonds, amount, as from the financial year 1927-1928, to the sum required for the service of interest at the rate of 5 per cent and amortisation at the rate of 1 per cent on the Bonds, as provided by the Law.

Berlin, April 15, 1926.

B. NOGARA.

Report of the Trustee for the German Railway Bonds.

The balance sheet of the first financial year of the Reichsbahn, which began on October 1, 1924, and ended on December 31, 1925, has been the subject of comment by the Commissioner, M. Leverve. The Trustee for the German Railway Bonds desires to state his agreement with M. Leverve's observations and with the views expressed by him. The anticipations of the Organising Committee have in the result been completely realised, and even surpassed.

While fulfilling in relation to the Company the functions assigned to him by the Dawes Plan the Trustee has not ceased to have his attention fixed on the possibilities of making a beginning as soon as possible with the placing of a part of the Bonds confided to his care. With this end in view he has maintained constant contact both with his colleagues of the Reparation Commission and with the Agent General for Reparation Payments, and on various occasions he has even been able to take part in the discussions of the Transfer Committee with a view to being in a position to draw up a programme for the issue of the bonds in entire agreement with the views of the said Committee.

There have been numerous conferences with the Bankers of the various countries in a position to open their markets with success to an issue of a first block of the bonds.

It appears as a result of the views exchanged in the course of these conversations that the first block to be issued should be comparatively large, so as to attract the savings of all countries, and draw attention to the representative securities of the most important railway system in Central Europe. This view must be given consideration, if it is desired to safeguard future operations for the placing of bonds of the Reichsbahn, operations which may well contribute towards the final financial recovery of Europe. It would be regrettable to compromise future issues by offering too small blocks to the public. It might be imprudent at the present time to think of a first issue, if such issue could not be to the amount of at least 1 or 2 milliards of gold marks.

To avoid abrupt disturbances of the exchange, it would be desirable to distribute the amount of the issue as much as possible between the ultimate recipient countries, that is to say between the countries to which the proceeds of the issue are to be finally assigned directly or indirectly. Further, the Bourses of Holland, Switzerland, Sweden, Spain, Canada and perhaps also Germany, might come to the assistance of the markets in recipient countries, whose powers of absorption might appear likely to be exceeded. In a word, a syndicate for placing the issue on the principal markets must be organised.

The bonds, in accordance with Article 46 of the German Railway Law of 1924, are denominated in gold marks, the gold mark being equivalent to $\frac{1}{2,000}$ kg of fine gold quoted in London. This provision does not exclude the ultimate adoption of other equivalent de-